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AGRICULTURAL FINANCE Outlook



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AGRICULTURAL FINANCE OUTLOOK

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SUMMARY

Both farmers and their lenders had a relatively good year in 1976, with the major exceptions of many livestock producers and producers in drought areas. Farm incomes are expected to average about the same as in 1975, despite large fluctuations that have occurred during this year. Asset values and equities of farm owners throughout the Nation continued to increase this year largely because of increases in real estate values.

Farm income in 1977 is expected to average around the relatively favorable 1976 level. Uncertainties center on the strength of foreign demands for major food and feed crops, on U.S. and world food production, on the domestic economic recovery and related demands for farm products and on the impact of the continuing downturn in the cattle cycle on market supplies and prices of meats.

The value of assets as shown in the balance sheet of the farming sector is expected to reach \$634 billion by the end of 1976, a gain of \$49 billion during the year. While this rise is below the 1975 increase of \$65 billion, it will far exceed this year's net farm income. A slower rate of increase in farmland values and the decline in livestock inventory values in the year (following the large gain in 1975) contributed to the less rapid gain in asset values in 1976.

The value of farmland (a major component of farm assets) apparently rose about 9 percent in 1976, compared with a 14 percent gain in 1975. Even in areas of severe drought or where livestock production remained unprofitable for a second or third consecutive year, land values apparently continuing upward. Such increases in asset values are frequently used by farm owners as the basis of refinancing debts to higher levels.

Total farm debt outstanding is expected to reach \$102 billion by the end of 1976, an increase of about \$11 billion (12 percent). Both real estate and nonreal estate debt rose more this year than last. The gain in total debt has been a little faster than the rise in asset values, and the debt-to-asset ratio rose slightly to about 16 percent. This ratio has been relatively stable over the last decade.

Real estate loan demand was strong during 1976 and lenders were more actively seeking loans. Life insurance company lending has increased considerably this year and banks and production credit associations recorded larger gains in their nonreal estate loans than in 1975.

Loan activity of merchants and dealers, particularly those selling farm machinery, was stronger than in other recent years as selling competition increased. Farmers Home Administration emergency loans rose further during the year as drought cut crop production across fairly large areas. Interest rates on farm loans showed mixed trends during the year and remained much higher than in most years before 1975.

Loan volume is expected to rise further in 1977 for most types of operating loans and for real estate loans. Loans for farm machinery rose in 1976 and are expected to rise further next year, and cattle feeding loans are also expected to increase.

Among individual farm types, income conditions and prospects varied widely in 1976. All types were reported to have experienced increased farm property values and were expected to reap some further gains during 1977. Incomes have been most favorable for dairy, poultry, (except turkey), cotton and tobacco producers. Wheat producers incomes reflect large supplies, lower prices, and rising carryover stocks. Many meat animal producers have continued to experience relatively low net returns and some have suffered losses. With the selloff of cattle

herds, this unfavorable situation will start to be corrected in 1977.

It appears that loan funds will be available to meet the enlarged demands at rates of interest near late 1976 levels. Some cash flow problems related to debt repayment capacity are expected. Renewals and loan extensions have been higher and lenders consider that farm lending is becoming more risky.

Based on the current expectation that the net income position of farmers in 1977 will be about the same as in 1976, capital expenditures are expected to increase at about the same rate as in 1976. Expenditures for purchases of real estate assets should also increase. The projected rise in total farm debt—about the same as in 1976—suggests a continuing growth in the use of borrowed funds relative to internally generated equity funding. Despite the expected increase in debt, farm owners' equity will grow as a result of increases in land values. Land values are projected to increase at an average of 7 percent, down slightly from 1976's estimated rise. As with other years, substantial variations in the rate of increase in land values are expected across the country.

BALANCE SHEET OF THE FARMING SECTOR, Jan. 1, 1977

Balance sheet values are expected to reach \$634 billion by January 1, 1977, up from \$585 billion a year earlier. This \$49-billion gain compares with the \$65-billion rise during 1975 and the record increase of \$89 billion in 1973 (table 1). In the last 5 years, from January 1, 1972 to January 1, 1977 farm asset values have increased by close to \$300 billion or 75 percent. Most of the gain in total asset values came from increasing farm real estate values.

Most asset items increased in value in 1976. Livestock was an exception, with estimated decline largely reflecting a substantial further drop in the number of cattle on farms.

Total farm debt rose \$11 billion in 1976 reaching \$102 billion, a \$2 billion larger rise than in 1975. Owners' equities in their farm assets—asset values minus debt—rose 38 billion dollars during the year. The debt-to-asset ratio rose slightly to 16 percent.

The large appreciation in farm asset values, especially since 1971, is part of the reason for the low average debt-to-asset ratio in the farming sector (figure 1). In each of the last several years increases in asset values have substantially exceeded net farm incomes. These higher valued assets are sometimes used by land owners to

obtain additional financing, and the continued rise in values has encouraged lenders to provide additional loan funds.

Farm Real Estate Values

A recent survey of major lenders in the farm real estate market shows that land values are expected to increase 9 percent for the year ending February 1, 1977. This coincides with the March 1976 USDA forecast of an 8 to 10-percent increase in land values. The North Central portion of the United States will continue to lead the advance. The Chicago Federal Reserve Bank reported that farmland in that area showed a 6-percent increase for the second quarter of 1976 on top of a 7-percent increase for the first quarter. Cotton producing regions should do quite well, while cattle producing areas will continue having problems, at least in the short run.

Between March 1, 1975, and February 1, 1976, farmland values increased an average of 14 percent, raising the U.S. average value per acre to \$403 from \$354 in 1975. During the past 5 years, per acre values have doubled. (figure 2)

The total value of U.S. farm real estate as of February 1 was \$420.9 billion, up \$51.1 billion

Table 1—Balance Sheet of the farming sector January 1, 1961-77

Item	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 ^a
	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars
Physical assets:																	
Real estate assets	132.2	138.4	144.3	152.6	161.5	172.8	182.3	192.5	201.4	206.9	215.0	231.5	260.6	325.3	371.1	422.3	460.3
Nonreal estate assets ^b	54.7	56.8	59.1	58.4	57.1	61.9	64.9	67.3	71.8	76.5	80.1	86.9	100.6	122.4	119.7	131.4	140.3
Total physical assets	186.9	195.2	203.4	211.0	218.6	234.7	247.2	259.8	273.2	283.4	295.1	318.4	361.2	447.7	490.8	553.7	600.6
Financial assets:																	
Commercial bank deposits and currency	8.7	8.8	9.2	9.2	9.6	10.0	10.3	10.9	11.5	11.9	12.4	13.2	14.0	14.9	15.0	15.6	16.1
Other financial assets ^c	9.1	9.3	9.4	9.6	9.8	10.0	10.1	10.3	10.6	10.9	11.2	11.7	12.6	13.7	14.8	16.1	17.3
Total financial assets	17.8	18.1	18.6	18.8	19.4	20.0	20.4	21.2	22.1	22.8	23.6	24.9	26.6	28.6	29.8	31.7	33.4
Total farm assets	204.7	213.3	222.0	229.8	238.0	254.7	267.6	281.0	295.3	306.2	318.7	343.3	387.8	476.3	520.6	585.4	634.0
Debt claims:																	
Real estate debt	12.8	13.8	15.1	16.8	18.9	21.2	23.1	25.1	27.4	29.2	30.3	32.2	35.8	41.3	46.3	50.9	56.7
Nonreal estate debt	12.0	12.8	14.2	15.7	16.3	18.0	19.8	20.9	20.3	21.1	22.2	24.7	27.8	32.1	35.2	39.4	44.4
CCC nonrecourse loans	1.4	1.9	2.1	1.9	1.6	1.4	1.2	1.4	2.7	2.7	1.9	2.3	1.8	.7	.3	.3	.4
Total debt claims on farm assets	26.2	28.5	31.4	34.4	36.8	40.6	44.1	47.4	50.4	53.0	54.4	59.2	65.4	74.1	81.8	90.6	101.5
Equity:	178.6	184.8	190.6	195.4	201.2	214.0	223.5	233.6	244.8	253.2	264.3	284.2	322.4	402.2	438.8	494.8	532.5
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Debt to asset ratio	12.8	13.4	14.1	15.0	15.5	16.0	16.5	16.9	17.1	17.3	17.2	17.2	16.9	15.6	15.7	15.5	16.0
Debt to equity ratio	14.7	15.4	16.5	17.6	18.3	19.0	19.7	20.3	20.6	20.9	20.7	20.9	20.3	18.4	18.7	18.3	19.1

^aPreliminary estimate. ^bIncludes machinery and motor vehicles, household furnishings and equipment and inventories of crops (including crops held as security for CCC loans) and livestock. ^cIncludes U.S. savings bonds and investments in farmer cooperatives. Does not include financial claims on specific nonfarm assets such as holding of common stocks as data on these claims are not available.

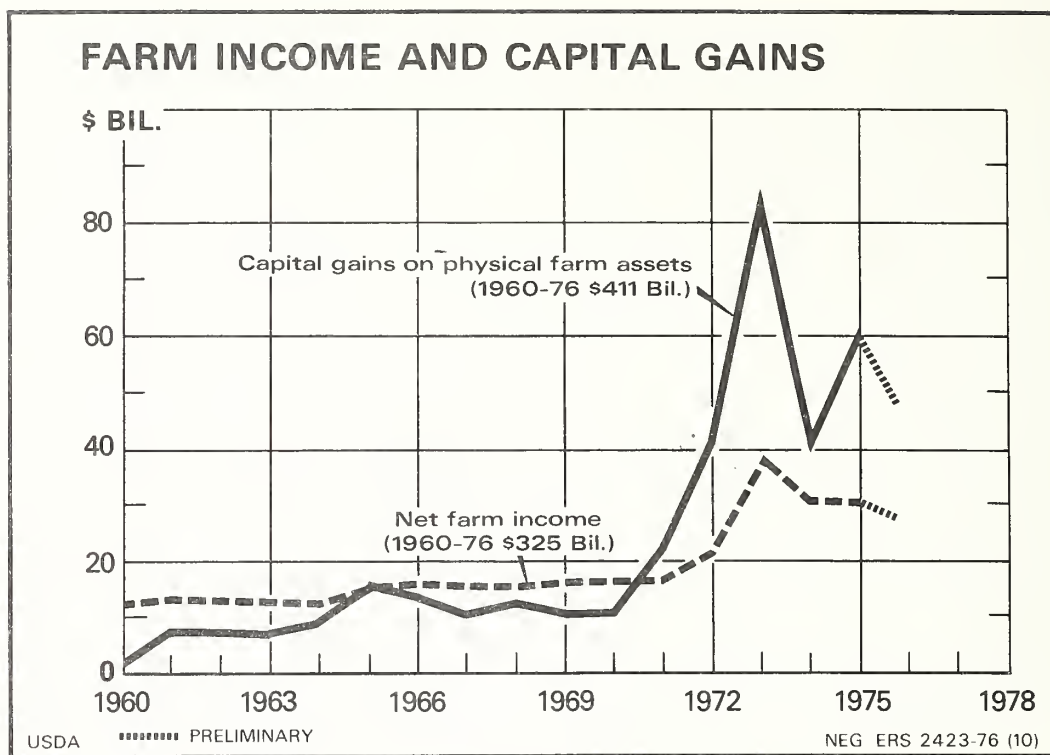


Figure 1

since March 1975. The average value per farm was \$165,000, up from \$143,800 in 1975—roughly a 15-percent increase. This gain was due to a combination of the rise in value per acre and an increase in average farm size.

For the year average farm values rose most rapidly during the November 1975 to February 1976 period—increasing an average of 2 percent per month versus 1 percent per month from March to November 1975. The November-February rise coincides with the most active period in the farm real estate market in the North Central States—the area that led the advance in farmland values. The highest percentage increases during the past year were in Iowa and Nebraska—both up 26 percent. Land values increased the least in the Far Western, Northeastern, and Southeastern States.

These regional variations reflected differences in actual and anticipated income. Continued high export demand for feed and food grains kept net income levels high in the North Central States and strengthened expectations that this trend would continue. In the cattle-raising Western States, producers have suffered from both high feed costs and low livestock prices. Consequently, the rate of increase for grazing land in this area fell below gains for irrigated and dry cropland for the second consecutive year, and overall increases slowed relative to those in the North Central region.

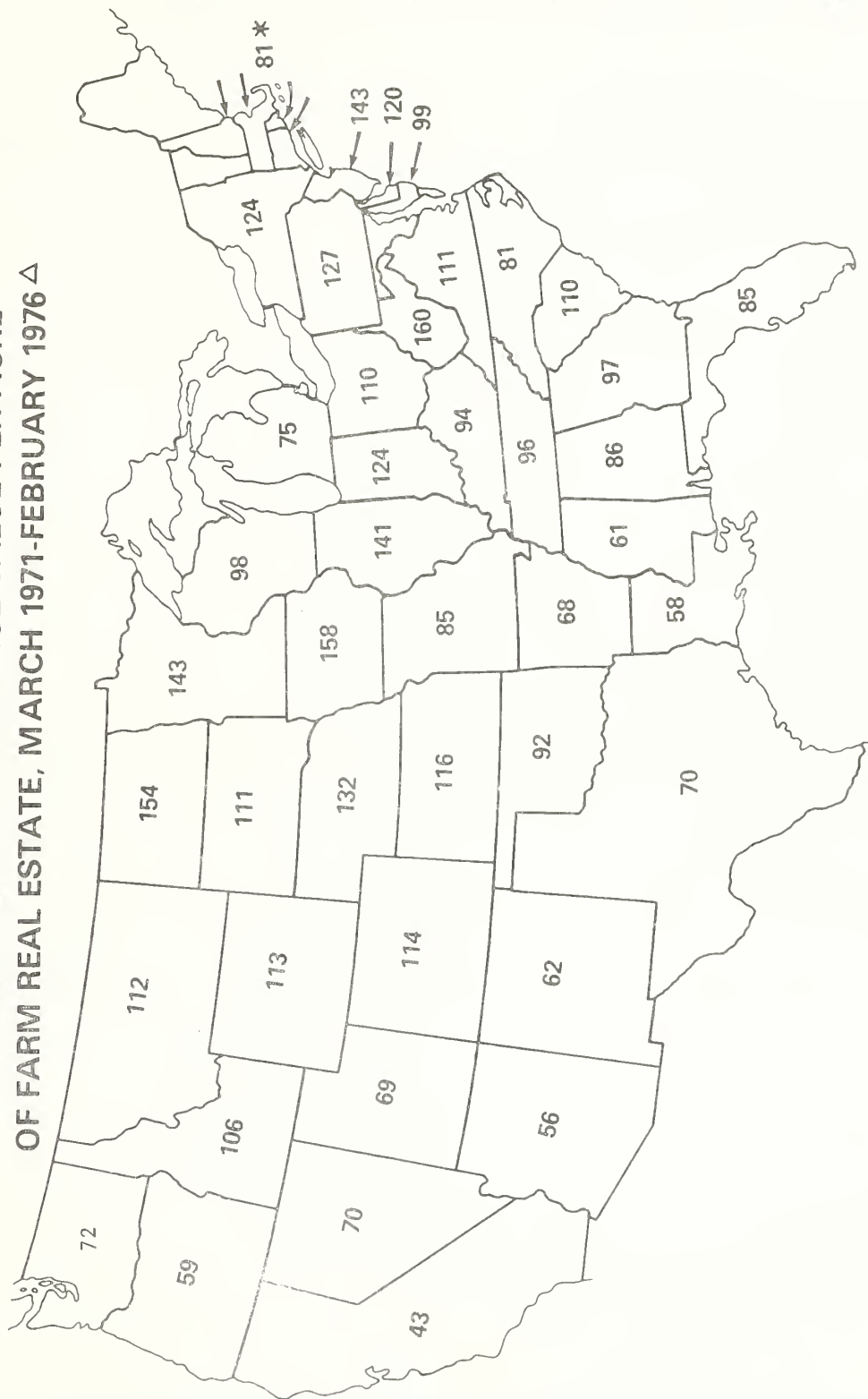
Farm enlargement—the major reason for purchasing land—continues as a significant factor affecting farmland values. Between March 1975 and March 1976, 60 percent of all tracts transferred were for farm enlargement. Regionally, it was most important in the Northern Plains and Corn Belt States where it accounted for 84 percent and 68 percent of total transfers, respectively.

The proliferation of part-time farms which is relatively new to the farmland market scene, has an important impact on market values. It's impact is felt particularly in the Northeast and Appalachian States where approximately one-fifth of all transfers are purchased for part-time farming. Part-time farming leads into another important factor, also relatively new on the scene—nonfarm income to farmers. In 1950, nonfarm income accounted for 31 percent of total personal income of the farm population. In 1960, it was 39 percent, in 1970 it was 52 percent, and in 1975 it was just under 50 percent. From 1968-1972, it exceeded net farm income and indications suggest that it will regain its lead this year.

TOTAL FARM DEBT

Total farm debt outstanding is expected to reach \$102 billion by the end of 1976, an increase of nearly \$11 billion during the year (table 2). This

PERCENT CHANGE IN AVERAGE VALUE PER ACRE
OF FARM REAL ESTATE, MARCH 1971-FEBRUARY 1976 Δ



Δ BASED ON INDEX NUMBERS OF AVERAGE VALUE PER ACRE * AVERAGE INCREASE FOR MAINE, NEW HAMPSHIRE, VERMONT, MASS., R.I. AND CONN

Figure 2

Table 2—Total farm debt outstanding, January 1, selected years, 1967-77

Year	Real estate debt	Nonreal estate debt excluding CCC loans	Price support and storage loans made or guaranteed by CCC	Total excluding CCC loans	Total including CCC loans
<i>Million Dollars</i>					
1967	23,077	19,794	1,157	42,871	44,028
1972	32,208	24,644	2,262	56,852	59,114
1973	35,758	27,794	1,793	63,552	65,345
1974	41,253	32,134	750	73,387	74,137
1975	46,288	35,226	319	81,514	81,833
1976	50,876	39,406	358	90,282	90,640
1977 ¹	56,690	44,420	467	101,110	101,577
<i>Dollar Change</i>					
1967-72	9,131	4,850	1,105	13,981	15,086
1972-77	24,482	19,776	-1,795	44,258	42,463
1972-73	3,550	3,150	-469	6,700	6,231
1973-74	5,495	4,340	-1,043	9,835	8,792
1974-75	5,035	3,092	-431	8,127	7,696
1975-76	4,588	4,180	39	8,768	8,807
1976-77	5,814	5,014	109	10,828	10,937
<i>Percent Change</i>					
1967-72	39.6	24.5	95.5	32.6	34.3
1972-77	76.0	80.2	-79.4	77.8	71.8
1972-73	11.0	12.8	-20.7	11.8	10.5
1973-74	15.4	15.6	-58.2	15.5	13.5
1974-75	12.2	9.6	42.5	11.1	10.4
1975-76	9.9	11.9	12.2	10.8	10.8
1976-77	11.4	12.7	30.4	12.0	12.1
<i>Percentage Distribution of Debt</i>					
1967	52.4	45.0	2.6		100.0
1972	54.5	41.7	3.8		100.0
1973	54.7	42.5	2.8		100.0
1974	55.7	43.3	1.0		100.0
1975	56.6	43.0	0.4		100.0
1976	56.1	43.5	0.4		100.0
1977	55.8	43.7	0.5		100.0

¹ Preliminary.

rise was \$2 billion more than in the previous year, with both real estate and nonreal estate debt rising more rapidly than in 1975 (fig. 3). The 1976 dollar increase in total farm debt, excluding Commodity Credit Corporation (CCC) loans, exceeded the previous record of 1973. CCC price support loan activity is expected to increase reflecting the recently announced increase in the level of price support loans available on major crops, particularly on wheat. CCC loans are available to producers at 7.5 percent interest, somewhat below market rates on nonreal estate loans. CCC loans generally have become less important in recent years as Federal involvement in farm price and income support has become less important.

Farm Real Estate Debt

Farm real estate debt is expected to increase \$5.8 billion or 11 percent during 1976 (table 3 and fig. 3). This rise compares with a \$4.6 billion

(10 percent) increase in 1975. In dollar amounts, the 1976 increase would be the largest of record, reflecting such influences as the record high level of farmland prices and an active real estate market during the year. In addition, a substantial volume of farm real estate loans continued to be refinanced by owners into larger loans, with the loan proceeds then available for various uses—to purchase other land, to make other investments, or to repay other debts. With the changes in real estate debt and in farmland values, the overall ratio of real estate debt to land values on January 1, 1977, is 12.3 percent. This ratio has varied within a narrow range for many years.

Among the various lenders, the increase in lending during 1976 by the life insurance companies has been the most striking. Life insurance companies are estimated to have increased their holdings of farm real estate loans by about \$1 billion or 16 percent in 1976—compared with a gain of \$0.2 billion, or 4 percent, in 1975. Life insurance company

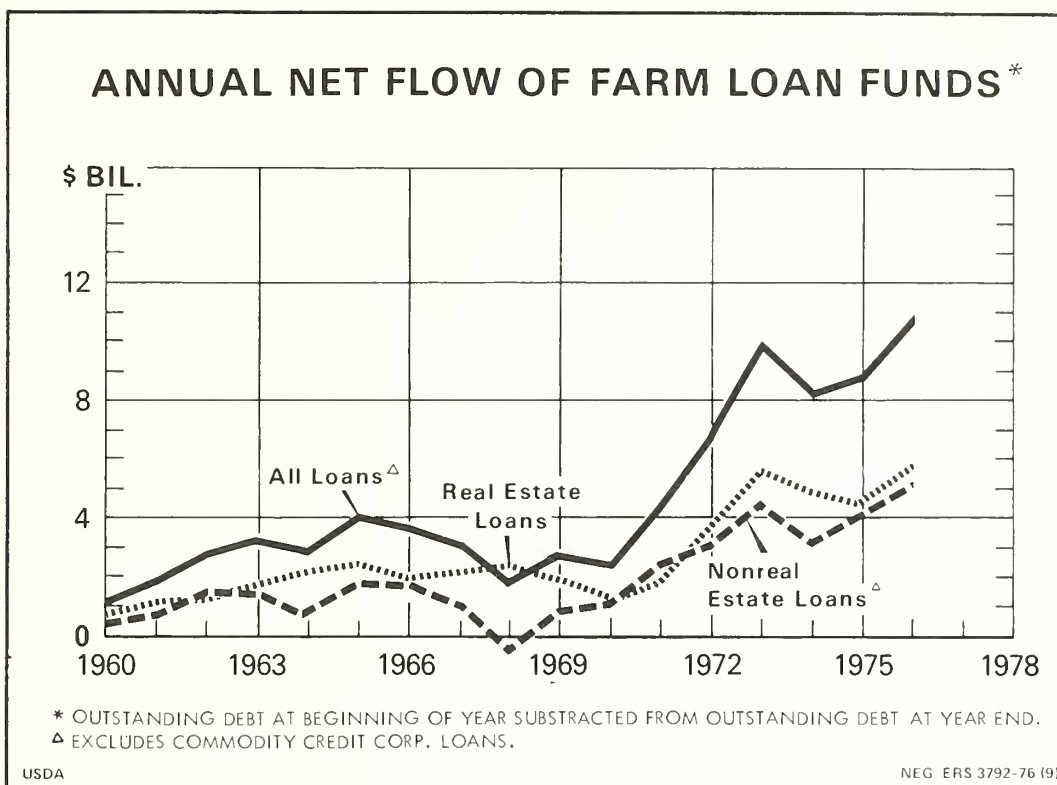


Figure 3

respondents in the recent survey indicated ample funds were available from their companies for agricultural investments because of slackness in other investment areas—and that the demand for farm real estate loans was strong.

Loans funded by sellers of farmland—under land contract or mortgage—apparently rose less rapidly during 1976 than loans of most other lender groups. The likely reason for the smaller growth of loans from this group is the more ready availability of loans from life insurance companies, Federal land banks, and the other institutional lenders.

The share of outstanding debt held by the various lenders on January 1, 1977, will continue to reflect the growing dominance of the Federal land banks. However, the strong revival of lending during the year by the life insurance companies caused their own share to increase slightly, to a little over 13 percent.

The condition of the farm real estate debt appears to have remained strong in 1976. There was little change in the number or percent of delinquent loans, or of loans in process of foreclosure. The proportion of total loans that were delinquent or in foreclosure remained very small.

Nonreal Estate Farm Debt

Nonreal estate farm debt appears to be rising a little more this year than last, and the demand for loans is expected to continue up during 1977. Funds for lending are reported as ample at commercial banks, and the production credit association (PCA's) have access to the money markets through the Federal intermediate credit banks. Since these banks are not relatively large borrowers, the funds available to them at going interest rates are virtually unlimited. Except in areas affected by drought and among many cattle producers, farm incomes seem reasonably good. Interest rates have changed little, but at around 8 to 9 percent they are still high by historical standards.

Debts of the financial institutions during 1976 grew more rapidly than those of individuals and others (I&O's), mainly merchants and dealers who sell production goods to farmers (table 4). The estimated rise in I&O farm loans in 1976 was larger than it had been for some years, somewhat checking the downward trend in its share of the total.

The share of total nonreal estate debt held by PCA's is estimated to have continued to rise a little in 1976, while the share held by banks, the major lender, declined a little.

Table 3—Real estate farm debt outstanding, January 1, selected years, 1967-77

Year	Federal land banks ¹	Farmers home administration ²	Life insurance companies ²	Commercial banks ²	Individuals and others ³	Total
<i>Million Dollars</i>						
1967.....	4,915	1,663	5,214	2,770	8,516	23,077
1972.....	7,880	2,618	5,564	4,218	11,927	32,208
1973.....	9,050	2,835	5,643	4,792	13,437	35,758
1974.....	10,901	3,013	5,965	5,458	15,915	41,253
1975.....	13,402	3,215	6,297	5,966	17,408	46,288
1976.....	15,950	3,369	6,533	6,296	18,728	50,876
1977 ⁴	18,710	3,660	7,550	6,870	19,900	56,690
<i>Dollar Change</i>						
1967-72.....	2,965	955	350	1,448	3,411	9,131
1972-77.....	10,830	1,042	1,986	2,652	7,973	24,482
1972-73.....	1,170	217	79	574	1,510	3,550
1973-74.....	1,851	178	322	666	2,478	5,495
1974-75.....	2,501	202	332	508	1,493	5,035
1975-76.....	2,548	154	236	330	1,320	4,588
1976-77.....	2,760	291	1,017	574	1,172	5,814
<i>Percent Change</i>						
1967-72.....	60.3	57.4	6.7	52.3	40.1	39.6
1972-77.....	137.4	39.8	35.7	62.9	66.8	76.0
1972-73.....	14.8	8.3	1.4	13.6	12.7	11.0
1973-74.....	20.4	6.3	5.7	13.9	18.4	15.4
1974-75.....	22.9	6.7	5.6	9.3	9.4	12.2
1975-76.....	19.0	4.8	3.7	5.5	7.6	9.9
1976-77.....	17.3	8.6	15.6	9.1	6.3	11.4
<i>Percentage Distribution of Debt</i>						
1967.....	21.3	7.2	22.6	12.0	36.9	100.0
1972.....	24.5	8.1	17.3	13.1	37.0	100.0
1973.....	25.3	7.9	15.8	13.4	37.6	100.0
1974.....	26.4	7.3	14.5	13.2	38.6	100.0
1975.....	29.0	6.9	13.6	12.9	37.6	100.0
1976.....	31.4	6.6	12.8	12.4	36.8	100.0
1977.....	33.0	6.5	13.3	12.1	35.1	100.0

¹ Includes data for joint stock land banks and Federal Farm Mortgage Corporation. ² Life Insurance Institute Tally sheet.

³ Estimated by ERS, USDA. ⁴ Preliminary.

Loans of the Farmers Home Administration (FmHA) continued to rise more rapidly than those of the other lenders during the year, reflecting some further increase in emergency lending which had already risen sharply during 1975. These loans were related to the severe drought in parts of the Nation which lowered crop and pasture production in those areas (figs 4 and 5). FmHA also makes or guarantees loans to farmers of limited means who are unable to receive adequate coverage from other lenders. FmHA loan holdings are small, constituting about 5 percent of total nonreal estate loans.

Merchant and dealer debt apparently increased somewhat faster in 1976 as evidenced by the fairly strong jump in lending by the credit subsidiaries of the six full-line farm machinery companies (table 5). Banks and other lenders believe there was a generally higher volume of lending by merchants and dealers during 1976 than in 1975 and

that this increase in lending was related to the increased costs of purchased items.

Outstanding loans of the six farm machinery credit subsidiaries increased 27 percent during 1975 and were estimated to have increased another 22 percent in 1976. These were larger gains than expected earlier. This development probably reflects the increased sales of farm machinery with greater use of credit financing by dealers to encourage sales.

Interest rates on farm loans generally have moved a little lower during 1976 (fig. 6 and 7). PCA's lowered their rates to about 8.25 percent by midyear, down from about 8.60 percent at the end of 1975 and 9.80 percent at the end of 1974. These rates reflected lower money costs in the central money markets in the sale of debentures by the Federal intermediate credit banks. Rates charged by rural banks in the Midwestern States have

Table 4—Nonreal estate farm debt outstanding, January 1, selected years, 1967-77

Year	Debt owed to reporting institutions (excluding CCC)					Debts owed to individuals and others	Total excluding CCC loans	Price support and storage loans made or guaranteed by CCC ²	Total including CCC loans
	All operating banks	Production credit associations	Federal intermediate credit banks ¹	Farmers home administration	Total				
	Million dollars								
1967.....	8,534	3,016	157	738	12,444	7,350	19,794	1,157	20,951
1972.....	12,498	6,078	237	771	19,584	5,060	24,544	2,262	26,906
1973.....	14,315	6,607	251	781	21,954	5,840	27,794	1,793	29,587
1974.....	17,167	7,829	331	877	26,204	5,930	32,134	750	32,884
1975.....	18,238	9,519	374	1,044	29,176	6,050	35,226	319	35,545
1976.....	20,160	10,774	350	1,772	33,056	6,350	39,406	358	39,764
1977 ³	22,520	12,450	380	2,120	37,470	6,950	44,420	467	44,887
	Dollar change								
1967-72.....	3,964	3,062	80	33	7,140	-2,290	4,850	1,105	5,955
1972-77.....	10,022	6,372	143	1,349	17,886	1,890	19,776	-1,795	17,981
1972-73.....	1,817	529	14	10	2,370	780	3,150	-469	2,681
1973-74.....	2,852	1,222	80	96	4,250	90	4,340	-1,043	3,297
1974-75.....	1,071	1,690	43	167	2,972	120	3,092	-431	2,661
1975-76.....	1,922	1,255	-24	728	3,880	300	4,180	39	4,219
1976-77.....	2,360	1,676	30	348	4,414	600	5,014	109	5,123
	Percent change								
1967-72.....	46.4	101.5	51.0	4.5	57.4	-31.2	24.5	95.5	28.4
1972-77.....	80.2	104.8	60.3	175.0	91.3	37.4	80.2	-79.4	66.8
1972-73.....	14.5	8.7	5.9	1.3	12.1	15.4	12.8	-20.7	10.0
1973-74.....	19.9	18.5	31.9	12.3	19.4	1.5	15.6	-58.2	11.1
1974-75.....	6.2	21.6	13.0	19.0	11.3	2.0	9.6	-57.5	8.1
1975-76.....	10.5	13.2	-6.4	69.7	13.3	5.0	11.9	12.2	11.9
1976-77.....	11.7	15.6	8.6	19.6	13.4	9.4	12.7	30.4	12.9
	Percentage distribution of debt								
1967.....	40.7	14.4	0.8	3.5	59.4	35.1		5.5	100.0
1972.....	46.4	22.6	0.9	2.9	72.8	18.8		8.4	100.0
1973.....	48.4	22.3	0.9	2.6	74.2	19.7		6.1	100.0
1974.....	52.2	23.8	1.0	2.7	79.7	18.0		2.3	100.0
1975.....	51.3	26.8	1.1	2.9	82.1	17.0		0.9	100.0
1976.....	50.7	27.1	0.9	4.4	83.1	16.0		0.9	100.0
1977.....	50.2	27.7	0.9	4.7	83.5	15.5		1.0	100.0

¹ Loans to and discounts for livestock loan companies and agricultural credit corporations. ² Although price-support loans of the Commodity Credit Corporation, are nonrecourse loans, they are treated as debts. Borrowers must either pay them or deliver the commodities on which they are based. ³ Preliminary.

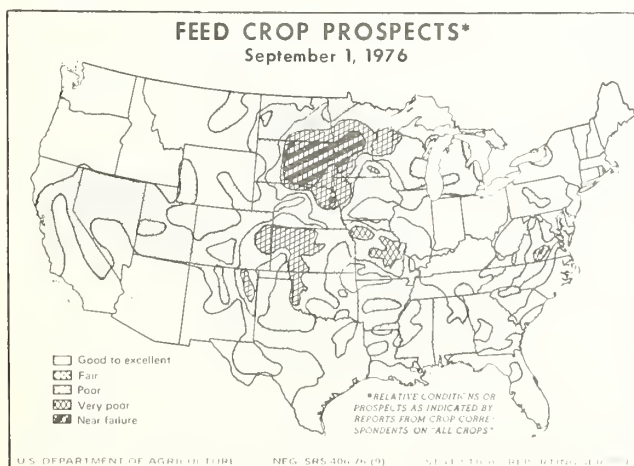


Figure 4

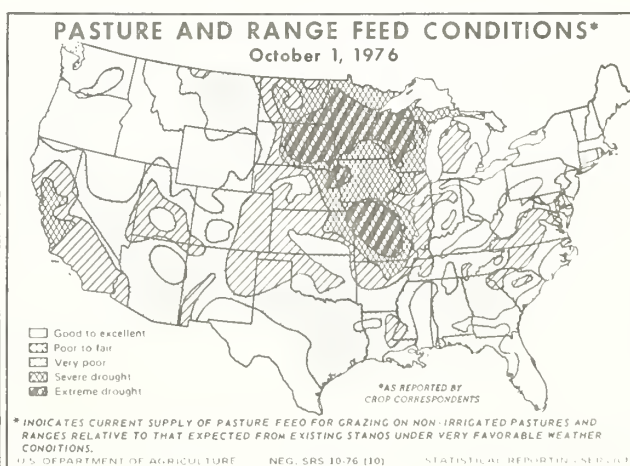


Figure 5

Table 5—Loan funds supplied by six large full-line farm machinery manufacturers for retail purchases of farm machinery and equipment^a

	Loans outstanding end of year	
	Million dollars	Percent (1970=100)
1970	1,170	100
1971	1,179	101
1972	1,499	128
1973	1,183	101
1974	1,160	99
1975 ^b	1,472	126
1976 ^c	1,799	154
	Loans made during year	
	Million dollars	Percent (1970=100)
1970	928	100
1971	936	101
1972	1,329	143
1973	1,065	115
1974	876	94
1975 ^b	1,236	133
1976 ^c	1,490	161

^aExcludes loans estimated to have been made for nonfarm purposes. Years shown are company fiscal years: October 31 for 4 companies, December 31 for 2 companies. Data, including estimates for 1976, were provided by the six companies.
^bRevised, ^cEstimated.

shown less fluctuation after rising to 9 percent at the end of 1974. Bank interest rates are more closely related to interest rates in local markets. FmHA now charges rates similar to market rates for most of its nonreal estate loans—about 8½ percent. Rates for FmHA emergency loans and real estate loans are less than market rates.

Rates charged by the Federal land banks (FLB's) and life insurance companies on farm real estate loans declined slightly during 1976, and loans provided by sellers of farms through land contracts and mortgages probably also followed suit. Survey data as of March 1976 indicated that rates for seller-financed loans were 1 to 2 percentage points lower than those charged by FLB's and life insurance companies.

FmHA Emergency Livestock Loan Program

The Emergency Livestock Loan Program, which began in 1974 and was due to expire on December 31, 1976, has been extended to September 30, 1978. No basic changes were made in the program for this second extension. The program is designed to help financially distressed livestock producers remain in business through guaranteed loans from

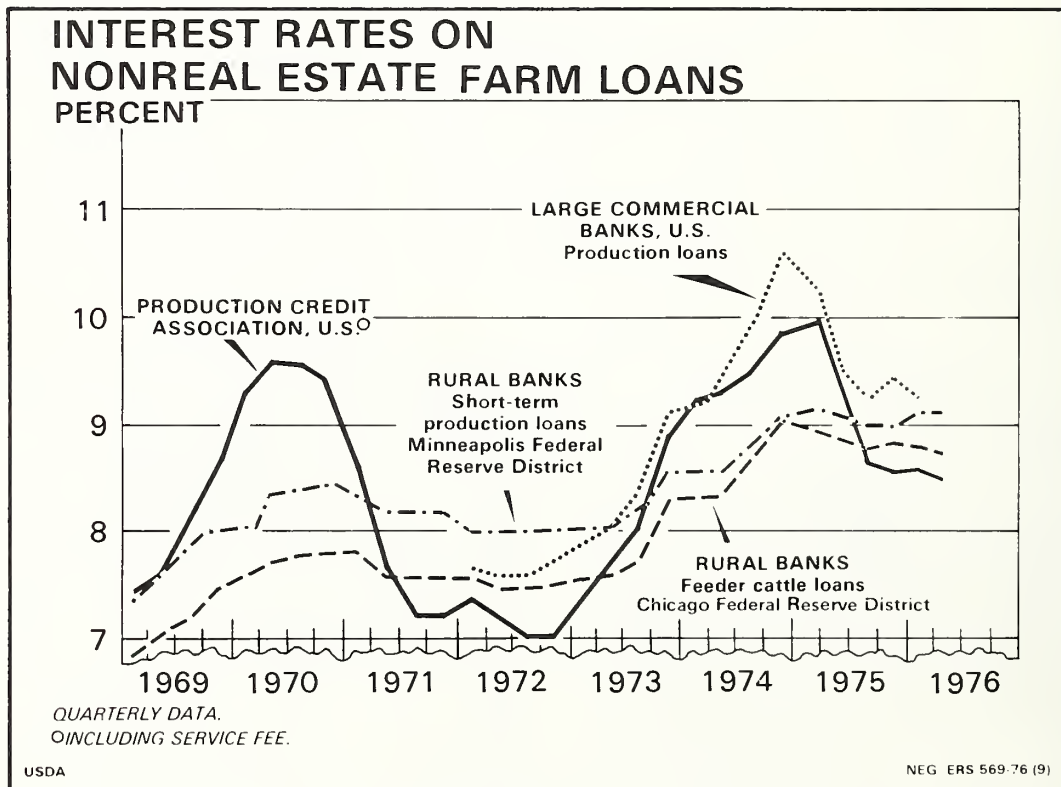
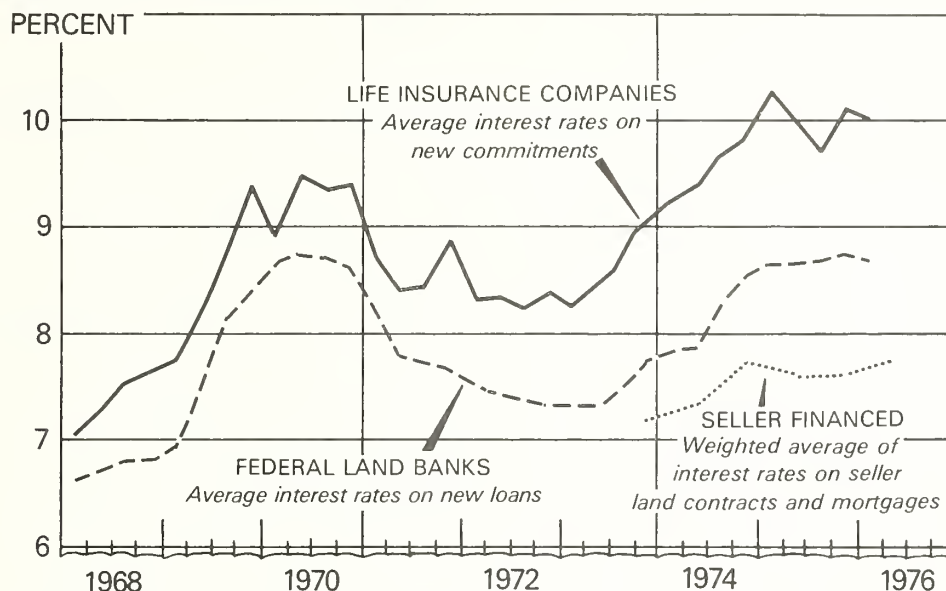


Figure 6

INTEREST RATES ON FARM REAL ESTATE LOANS



QUARTERLY DATA FOR LIFE INSURANCE COMPANIES AND FEDERAL LAND BANKS. SEMIANNUAL DATA FOR SELLER FINANCED LOANS.

USDA

NEG ERS 8958-76 (11)

Figure 7

commercial lenders. The FmHA guarantees 90 percent of the principal and interest on loans to eligible producers up to an approved line of credit not to exceed \$350,000. Loans are to be repaid within a maximum of 7 years with a 3 year renewal possible. Total funds allocated for guarantee are \$1,500 million.

Use of the program in 1976 has been similar to that experienced in 1975 and has not come into widespread use. For the year ending September 30, 1976, 2,983 loans had been obligated for \$442.2 million, compared to 2,988 loans in 1975 for \$352.9 million. Less than 1 percent of all livestock producers had a loan under the program. As of September 30, 1976 about one-half of the \$1,500 million available had been obligated.

Nearly three-fourths of the loans have been to livestock producers (primarily beef) in Texas, Oklahoma, Kansas, Nebraska, North and South Dakota, Montana, and Iowa. Loans in Oklahoma and Texas accounted for nearly 40 percent of total loans.

Lender acceptance of the program continues to vary in 1976 as in 1975. Considerable differences exist on acceptance among counties within similar livestock farming areas—apparently depending quite heavily on the extent to which lenders have participated in the program. Refinancing of existing debt has been the primary use for which the guarantee funds have been utilized—accounting for nearly 70 percent of total use. Losses thus far to FmHA under the program as of August 31, 1976, were \$1.2 million.

Year ending	Number of loans	Loan obligated	Average size
		Mil.	Dollars
June 30, 1975	2,988	\$352.9	\$118,106
Sept. 30, 1976	2,983	442.2	148,240
Total two years . .	5,971	\$795.1	
Appropriated funds guarantee		\$1,500.0	
Losses as of Aug. 31, 1976		\$1.2	

Lenders' Views on Farm Loan Risks

Compared with last year, farm loans are riskier investments according to the bankers—especially for beef feedlots. Of the bankers surveyed, 37 percent reported greater risks associated with farm lending this year.

Bankers views of the risks associated with making farm loans can be related to the levels and variability of farm incomes. Since lenders do not

generally share in the earnings derived from borrowed funds, the repayment ability of their borrowers is critical in determining loan risks. And repayment ability is closely linked to net farm income. For example, over 60 percent of the bankers viewed loans to beef feedlot farms as riskier this year. Correspondingly, 92 percent of these bankers reported that farm earnings would decline and 66 percent believed loan repayment difficulties would increase. For all farm types, 43 percent of the lenders believed that farm earnings would decline and 23 percent believed the number of borrowers with loan repayment difficulties would increase.

When faced with increased risks, lenders may react in different ways. The most likely responses, judging from past surveys, are to increase security requirements and supervision of farm loans. Increasing the security requirements on farm loans in effect reduces the borrowers' credit capacity. Survey results indicate security requirements on farm loans have increased this year over last year, and in addition lenders reported a slightly higher percentage of their borrowers loaned up to their practical loan limits. Information is not available on whether supervision has been increased.

Other lender responses to increased risk include reductions in the amount of farm loans made. However, in the case of commercial banks, an expected increase in deposits of roughly 10 percent may more than offset any reduction in loan funds due to increased risks. In addition, steady increases in the value of farm assets have provided additional security to offset the risks associated with increased variability or lower levels of farm income. Therefore, it does not appear that lenders are adjusting to increased risk by reducing the amount of loan funds made available. Nor is there any strong evidence that interest rates have changed due to increased risk. Although lenders believe that farm loans have become more risky, they continue to look upon them as desirable investments.

Federal Farm Estate and Income Tax Law Changes

The Tax Reform Act of 1976 has just recently become law. It has several features of importance to the agricultural sector. A major change is with taxation and transfer of estates. Several general provisions will affect all taxable estates, but the most important are the unification of the estate and gift taxes, and the replacement of the exemptions for each tax with a single, unified tax credit.

The unification of the estate and gift taxes eliminates the lower tax rate on lifetime gifts. The replacement of the two exemptions (\$60,000 for estates and \$30,000 for gifts) with a tax credit

(\$30,000 in 1977, rising to \$47,000 in 1981) will reduce the estate tax liability on most estates. For example, the value of tax free estates, when left to someone other than a spouse, will rise from the present limit of \$60,000 to \$120,000 in 1977, and to \$175,000 by 1981. The marital deduction on property bequeathed to the spouse, will also increase from half the adjusted gross estate to half the adjusted gross estate or \$250,000 whichever is greater. This should entail even greater tax reductions on qualifying estates. Further, certain estates comprised mainly of farm or other closely-held businesses can qualify for use-value assessment on certain assets rather than an assessment based on market value. There is also a special estate tax payment plan that allows a 15-year payment period at relatively low interest rates (4 percent). However, use-value assessment cannot reduce the value of the estate by more than \$500,000, and the 4-percent interest rate applies to the first \$1 million of farm or closely-held business property.

There are other provisions which will affect the agricultural sector. Most of the individual income tax reductions initially adopted in the Tax Reduction Act of 1975 have been extended. These include the general tax credit and the increase in the standard deduction. Other changes include a continuation of the 10-percent investment tax credit, liberalization of the Retirement Income Credit, revised provisions for long-term capital gains, and several changes which affect the treatment of tax shelters in agriculture. Individuals who are interested in further information about this new Act may want to consult a more comprehensive review.¹

These changes have important implications for agriculture. Estate tax liabilities will generally be reduced, although these lower liabilities will not obviate the need for effective estate planning. Moreover, the special valuation rules for farmland may encourage nonfarm investors to purchase farmland as a means of reducing their estate taxes. The most significant changes in agricultural business operations may stem from the tax shelter provisions. Investors will be limited to loss deductions that do not exceed the amount of capital they personally have at risk, and certain farm syndicates must follow more restrictive practices—such as eliminating the use of prepaid expenses as immediate tax deductions, and capitalizing the preproductive expenses of developing groves, orchards, and vineyards. These new tax rules may reduce the amount of tax-motivated investment in agriculture somewhat.

¹See "Provisions of Importance to Agriculture in the Tax Reform Act of 1976" by Charles A. Sisson, an ERS publication.

CASH SOURCES AND USES OF FUNDS IN THE FARM SECTOR-1976

Cash sources of funds for the farm sector in 1976 are estimated at \$76.8 billion (table 6). Cash sources of funds include net cash farm income plus off-farm income of farm operators and their families as well as the net flow of real estate and non-real estate loan funds. Income from the sale of farmland to the nonfarm sector by operators who remain in farming is not included.

Income from Farm and Off-Farm Sources

Estimated cash income from farm and off-farm sources in 1976 increased from the 1975 level and surpassed the previous record set in 1973. The increase is due to increases in both net cash farm and off-farm income, and it reverses the downward trend of the previous 2 years.

The ratio of net cash income from farm and off-farm sources to total cash uses of funds measures the degree to which cash uses of funds by farm operators and their families are financed with internally generated funds. For 1976 the ratio is estimated at 85.9 percent, the lowest over the 1961-1976 period. Since 1970, there has been a rather sharp drop in the proportion of internally generated funds. Despite the decline, there does not appear to be any substantial change in the ability of farm operators to repay loans.

Farm Borrowing

The net flow of real estate loan funds is estimated at \$5.8 billion in 1976, up over a billion dollars from 1975. The estimated net change in real estate debt is the highest on record—as is the ratio of the net flow of real estate loan funds to total cash uses of funds. Given the magnitude of the estimated increase, only part of the increase is attributable to the increase in the estimated value of real estate purchases.

The net flow of nonreal estate loans, excluding CCC non-recourse loans, is estimated at \$5.0 billion for 1976. This is also a record increase and reflects in part the greater reliance by farm operators on external funds to finance operating expenses and to purchase capital items. The ratio of the net flow of nonreal estate loan funds to total cash uses of funds was 6.5 percent in 1976.

Cash Uses of Funds in the Farm Sector

Estimated total cash uses of funds in the farm sector in 1976, by definition, equal total cash sources of funds, or \$76.8 billion. Total uses of funds have not changed dramatically since 1973, but some individual components have shown much greater variability.

Annual Capital Formation and Purchases of Real Estate Assets

For 1976, total cash flows of capital are estimated at \$23.8 billion, about 7 percent higher than 1975. Of the total cash flows of capital, annual capital formation accounted for \$15.1 billion. That amount is a record outlay for annual capital formation. Much of the increase, however, reflects the higher prices paid for capital items. Purchases of machinery and motor vehicles are estimated at \$9.6 billion, an increase of nearly 8 percent over 1975. Since 1974, expenditures for farm machinery and motor vehicles have exceeded the value of real estate purchases from discontinuing proprietors. Capital improvements to real estate assets are estimated at \$3.8 billion, the same as 1975. The peak year for expenditures on capital improvements occurred in 1974, the year following the large surge in cash farm income. Other capital purchases include net changes in bank deposits and currency; net additions to household furnishings and equipment; and purchases of breeding livestock. The 1976 estimated total use of funds for these purposes is \$1.7 billion, an increase over 1975 but still below the levels during 1971-73.

Purchases of real estate from discontinuing proprietors in 1976 is estimated at \$8.7 billion. This represents a small increase over 1975, but is well below the amount of 1973. The substantial increase in land values since 1973 has been more than offset by a much lower rate of land transfers.

Personal Consumption and Other Cash Uses

Personal consumption and other cash uses of funds is estimated at \$53.0 billion in 1976. In addition to cash uses for food, clothing, and other personal consumption items, this amount includes cash used to pay State and Federal income taxes and to finance nonfarm investments such as common stocks, nonfarm businesses, and the like. The value is determined residually by subtracting total cash flows of capital from total cash sources of funds.

Personal consumption and other cash uses reported in table 6 are in current dollar amounts. It is also useful to look at these values when deflated by the Index of Prices Paid on Family Items. Using this deflator, real personal consumption and other cash uses in 1976 and 1975 were approximately equal. However, real personal consumption and other cash uses in 1976 are roughly \$9 billion lower than in 1973. Thus, the living standard of farm operators in real terms may have decreased since 1973, but it appears to still be well above the living standard of the 1960's.

Table 6—Cash sources and uses of funds for the U.S. Farm Sector, 1961-1975

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976 ^a
	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>
Cash sources of funds^b																
Cash income from farm and off farm ^c	23.8	24.7	25.8	26.7	28.9	32.6	31.1	33.1	36.5	37.5	38.7	46.8	64.9	64.8	62.6	66.0
Net flow of R.E. loans.....	1.0	1.3	1.7	2.1	2.3	1.9	2.0	2.3	1.8	1.1	1.9	3.6	5.5	5.0	4.6	5.8
Net flow of non R.E. loans.....	.8	1.4	1.5	.6	1.8	1.7	1.1	-0.5	.7	1.1	2.4	3.2	4.3	3.1	4.2	5.0
Cash source of funds ^c	25.6	27.4	29.0	29.4	33.0	36.2	34.2	34.9	39.0	39.7	43.0	53.6	74.7	72.9	71.4	76.8
Cash uses of funds																
Purchases of machinery and motor vehicles.....	2.9	3.2	3.5	3.8	4.1	4.6	5.1	4.6	4.5	4.9	4.8	5.7	7.7	8.4	8.9	9.5
Capital improvement to real estate assets.....	1.7	1.8	1.9	1.9	1.9	2.1	2.3	2.1	2.3	2.4	2.5	2.4	3.0	4.1	3.8	3.8
Other capital purchases ^d	1.0	.9	.6	.6	1.0	.8	1.6	1.6	1.2	1.5	2.5	3.1	2.4	0.9	1.3	1.7
Annual capital formation	5.6	5.9	6.0	6.3	7.0	7.5	9.0	8.3	8.0	8.8	9.8	11.2	13.1	13.4	14.0	15.1
Purchases of real estate discontinuing proprietors.....	3.2	3.3	3.5	3.9	4.3	4.6	4.4	4.3	3.0	3.6	4.8	7.2	9.9	8.2	8.2	8.7
Total cash flow of capital.....	8.8	9.2	9.5	10.2	11.3	12.1	13.4	12.6	11.0	12.4	14.6	18.4	23.0	21.6	22.2	23.8
Personal consumption and other cash uses	16.8	18.2	19.5	19.2	21.7	24.1	20.8	22.3	28.0	27.3	28.4	35.2	51.7	51.3	49.3	53.0
Cash uses of funds ^c	25.6	27.4	29.0	29.4	33.0	36.2	34.2	34.9	39.0	39.7	43.0	53.6	74.7	72.9	71.4	76.8
Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Ratio of selected cash sources to uses of funds:																
Cash income from farm and off farm sources	93.0	90.2	88.9	50.8	87.6	90.1	90.0	94.8	93.6	94.4	90.0	87.3	86.8	88.9	87.7	85.9
Net flow of non R.E. loan funds.....	3.9	4.7	5.9	7.1	7.0	5.2	5.9	6.6	4.6	2.8	4.4	6.7	7.4	6.8	6.4	7.6
Net flow of non R.E. loan funds	3.1	5.1	5.2	2.1	5.4	4.7	3.2	1.4	1.8	2.8	5.6	6.0	5.8	4.3	5.9	6.5
Total cash sources.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^aPreliminary. ^bCash sources of funds from sale of real estate to the nonfarm sector are not included due to the lack of data. ^cGross cash farm operating expenses have been deducted from gross cash farm income in the account. ^dIncludes net additions to household furnishings, commercial bank deposits and currency, and purchases of breeding livestock.

OUTLOOK FOR 1977²

The financial outlook for the farm sector in 1977 depends upon crop and livestock output and prices received and paid by farmers. Based upon current projections, the values of these key variables are such that no major change of net farm income is expected during 1977.

Crop output in 1976 was nearly as large as in 1975 but the crop was reduced from early-season expectations because of drought in some sections of the country. Output in 1977 is projected to rise, assuming weather and growing conditions are about average. But uncertainties make this projection very tenuous. Average prices received on crops are not expected to change much from 1976. Aggregate production of livestock and livestock products as well as prices received were assumed to average close to 1976 levels.

Using current projections of indexes of prices received and paid and of crop and livestock output, quantitative forecasts of the financial outlook for the farm sector are presented below. It should be recognized that these forecasts would change under alternative price and output scenarios.

Forecasting Procedures and Past Accuracy

The balance sheet for January 1, 1978, and cash flow projections for 1977 presented here are developed with the aid of an econometric model of the farm financial sector—the Aggregate Income and Wealth Simulator. The model uses functional equations which have been empirically estimated and tested. Preliminary January 1, 1977, balance sheet

²The Aggregate Income and Wealth (AIW) Simulator for the farm sector, the basis of this section of the report, was developed by John B. Penson, Jr., David A. Lins, and C.B. Baker. The theoretical underpinnings of the model are documented in Penson's Ph.D. thesis: "An Aggregate Income and Wealth Model for the U.S. Farm Sector: The Description and Application to Policy Analysis." In addition, the interested reader can contact Lins for a working paper which documents the current structure of the model and provides the empirical properties of the functional equations contained in the model.

values are used as the starting point from which forecast estimates are made. These preliminary estimates are developed by ERS staff, independently of model estimates.

Accuracy of model estimates varies among different components and from one year to another. Table 7 indicates the accuracy between the preliminary estimate as of November 1976 for January 1, 1977, and the forecast developed with the model a year ago. As shown in the table, the preliminary estimate by ERS and forecast values by the simulation model were very close for real estate values and financial assets. Nonreal estate assets were slightly over-estimated due to lower than expected yearend prices on inventories. Real estate debt outstanding was also slightly over-estimated, while nonreal estate debt was slightly under-estimated.

Last year's projection of the total cash flow of capital for 1976 appears to be substantially above the preliminary estimates now available. The major reasons for this difference have been traced to revisions in data series and incorrect procedures in the model for estimating purchases of real estate assets from discontinuing proprietors and the level of capital improvements to real estate.

Stocks of Assets and Loans Outstanding, January 1, 1978

The value of farm real estate assets as of January 1, 1978, is forecast at \$491 billion (table 8). This is almost a 7-percent increase for 1977, well below the estimated 9-percent hike for 1976. All of the increase in value is attributable to unrealized capital gains since the stock of real estate assets in 1967 prices is expected to remain unchanged during 1977. The projected moderation in the rate of increase in current land values reflects a projection of no major change in net farm income, a relatively high rate of interest on real estate loans, and little change in the rate of inflation in the general economy.

The total value of nonreal estate assets includes the value of farm machinery and motor vehicles, crop and livestock inventories, and household fur-

Table 7—Comparisons of actual, preliminary, and forecasted balance sheet items

	Jan. 1, 1976 ERS preliminary estimate as of Nov., 1975	Jan. 1, 1976 ERS final estimate as as of Sept., 1976	Jan. 1, 1977 ERS preliminary estimate as of Nov., 1976	Jan. 1, 1977 estimate by AIW simulator as of Nov., 1975
	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>
Real estate	423.3	422.3	460.3	461.4
Nonreal estate assets	139.5	131.4	140.3	149.1
Commercial bank deposits and currency	15.3	15.6	16.1	15.9
Other financial assets	16.1	16.1	17.3	16.7
Real estate debt	51.9	50.9	56.5	58.4
Nonreal estate debt	38.7	39.7	44.4	43.4

Table 8—Balance sheet for the farm sector, January 1, 1977 and forecast to January 1, 1978

Item	January 1, 1977 ^a		January 1, 1978 ^b		1977 to 1978 with—	
	Current value	Value in 1967 prices	Current value	Value in 1967 prices	Current values	Value in 1967 prices
	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Percent change</i>	<i>Percent change</i>
Physical assets:						
Real estate assets	460.3	183.8	491.4	183.8	6.8	0.0
Nonreal estate assets ^c	140.3	73.6	154.3	73.8	10.0	0.3
Total physical assets	600.6	257.4	645.7	257.6	7.5	0.1
Financial assets:						
Commercial bank deposits and currency	16.1	8.2	16.0	7.8	-0.6	-4.9
Other financial assets ^d	17.3	8.8	17.6	8.6	1.7	-2.3
Total financial assets	33.4	17.0	33.6	16.4	0.6	-3.5
Total farm assets	634.0	274.4	679.3	274.0	7.1	-0.1
Debt claims:						
Real estate debt	56.7		63.7		12.3	
Nonreal estate debt	44.4		48.4		9.0	
CCC nonrecourse loans	.5		.5		0.0	
Total debt claims on farm assets	101.6		112.6		10.8	
Equity	532.4		566.7		6.4	
	<i>Percent</i>		<i>Percent</i>			
Debt to asset ratio	16.0		16.6		3.8	
Debt to equity ratio	19.1		19.9		4.2	

^aPreliminary estimate. ^bForecast by the AIW simulator.

^cIncludes machinery and motor vehicles, household furnishings and equipment and inventories of crops (including crops held as security for CCC loans) and livestock. ^dIncludes U.S. savings

bonds and investments in farmer cooperatives. Does not include financial claims on specific nonfarm assets such as holding of common stock as data on these claims are not available.

nishings and equipment. The total value of nonreal estate assets is forecast at \$154 billion, an increase of 10 percent from a year earlier. Most of the increase will reflect valuation changes rather than net additions to stocks. Due to potentially large intra-year variations in commodity prices, year-end value projections tend to be less accurate than estimates of stocks in constant dollar amounts.

Total financial assets held by farmers are forecast to change very little during 1977. The value of financial assets in constant prices (1967) is arrived at by deflating the current value of financial assets by the Index of Prices Paid Including Interest, Taxes, and Wages.

The deflated value gives an estimate of the real purchasing power of the financial assets. The real value of financial assets is expected to decline in 1977 following a well-established trend in this direction. Potential reasons for this decline include the relatively low rate of return on financial assets when compared with other investments and the holding of inventories and the existence of unused credit as alternative (but less liquid) sources of liquidity.

Loan funds outstanding at the end of 1977 are forecast to total \$113 billion, an increase of \$11 billion over the January 1, 1977, estimate. This represents nearly an 11-percent increase in total debt outstanding.

Projected real estate debt outstanding for January 1, 1978, is placed at \$64 billion. Although the AIW simulator does not currently forecast market shares for various lenders, it is believed that life insurance companies will expand their share of the market in 1977. Federal land banks are expected to remain the dominant institutional lender, while individuals will continue to supply a large portion of the real estate loan funds through mortgages and land contracts. Adequate financing for farm real estate loans appears likely given the apparent increase in availability of funds from life insurance companies, the ability of Federal land banks to tap the central money market, and the ability of land sellers to finance their sales through land contracts.

Nonreal estate debt outstanding, including CCC loans, is projected at \$49 billion. The net flow of nonreal estate loan funds in 1977 would total \$4

billion, a decline of \$1 billion from the net flow now estimated for 1976. There appears to be an adequate supply of loan funds available from banks, PCA's, and merchants and dealers, particularly machinery dealers.

The debt-to-asset and debt-to-equity ratios are expected to increase slightly in 1977 (table 8), although both still are expected to remain below what they were in the early 1970's. Ratios of this nature are generally not comparable to those in other sectors of the economy because other sectors tend to have a much higher proportion of current assets.

An increase of over \$34 billion in farm proprietors' equity is forecast for 1977. However, if one deflates proprietors' equity by the Index of Prices Paid by Farmers Including Interest, Taxes and Wages, one measure of the purchasing power of proprietors equity is developed. Using a 1967 base for this deflator, the real purchasing power of farm proprietors equities is expected to increase by less than \$10 billion during 1977.

Cash Sources and Uses of Funds - 1977

Published estimates of farm and off-farm income for 1977 are not yet available. The estimates reported below are a product of the AIW simulator and may not correspond with final ERS estimates.

Total cash sources of funds for the farm sector in 1977 are forecast at \$77 billion (table 9). Cash income from farm and off-farm sources is expected to remain virtually unchanged from 1976. Some increases in off-farm income are expected, while net cash farm income may decline slightly. Net increases in total debt are forecast at \$11.0 billion. Net increases in real estate debt during 1977 are expected to exceed all previous yearly increases, while net increases in nonreal estate debt are expected to decline from the record level of \$5.0 billion now estimated for 1976.

Annual capital formation is forecast at \$16.2 billion for 1977, an increase of just over 7 percent. If one deflates the capital expenditures by the prices paid, then real capital expenditures would be virtually unchanged from 1976.

Purchases of real estate assets from discontinuing proprietors is forecast to total \$10.5 billion during 1977. The increase over 1976 estimated levels reflects the higher price on farm real estate as well as a projection of a modest increase in the rate of real estate transfers. Past indications suggest that the rate of real estate transfers is extremely difficult to project with a high degree of accuracy. If the projection is too high, then the estimate of the net flow of real estate loan funds is also likely to be too high.

Personal consumption and other cash uses of funds are forecast to total just over \$50 billion in

Table 9—Cash sources and uses of funds for the farming sector, 1976 and forecast for 1977

	1976 ^a	1977 ^b
	Billion dollars	Billion dollars
Cash sources of funds from: ^c		
Cash income from farm and off-farm sources ^c	66.0	66.2
Net flow of real estate loan funds.....	5.8	7.0
Net flow of nonreal estate loan funds.....	5.0	4.0
Total cash sources of funds ^c	76.8	77.2
Cash uses of funds:		
Purchase of machinery and motor vehicles	9.6	10.0
Capital improvements to real estate assets	3.8	4.3
Other capital purchases ^d	1.7	1.9
Annual capital formation.....	15.1	16.2
Purchases of real estate asset from discontinuing proprietors.....	8.7	10.5
Total cash flow of capital	23.8	26.7
Personal consumption and other cash uses of funds.....	53.0	50.5
Total cash uses of funds ^e	76.8	77.2
Ratio of selected cash sources to cash uses of funds:		
Cash income from farm and off-farm sources.....	85.9	85.7
Net flow of real estate loan funds.....	7.6	9.1
Net flow of nonreal estate loan funds.....	6.5	5.2
Total cash sources of funds.....	100.0	100.0

^aPreliminary estimate. ^bForecast by the AIW simulator. ^cCash sources of funds from sale of real estate to the nonfarm sector are not included. ^dIncludes net additions to household furnishing, commercial bank deposits and currency, and purchases of breeding livestock. ^eGross cash farm operating expenses have been deducted from gross cash farm income in the account.

1977, which would be about 5 percent less than in 1976. However, if one deflates the value by the Index of Prices Paid for Family Living Items, then a rather substantial decline in the real purchasing power of this cash use of funds is projected.

In 1976, an estimated 86 percent of the cash uses of funds were financed by cash income from farm and off-farm sources. For 1977, it is forecast that this percentage will drop by a small amount. Thus, the trend toward an increasing reliance upon external sources of funds is projected to continue in 1977.

There appears to be some concern over the liquidity position of farm operators. A proxy measure of the liquidity position is the ratio of current assets to current liabilities. If one measures current assets as deposits and currency plus crop and livestock inventories and current liabilities as nonreal estate debt, then the ratio of current assets to current liabilities is forecast to remain unchanged from 1976 to 1977. While the overall ratio suggests no deterioration in liquidity, some types of farms may experience a reduction in their liquidity position due to unfavorable commodity prices.

TYPE OF FARM

The following section describes the prospective and current financial conditions of major farm types for the United States. An indication of the numbers and location of these units is shown in table 10, and on the maps accompanying the various farm types. The distribution of farm numbers is based on 1969 Census data, the latest available. Data from the 1974 Census will soon be released, but the general location and relative importance of the various farm types is not believed to have changed substantially from those in 1969.

Financial information from all major farm lenders was used in analyzing the financial conditions for 1976 and the outlook for 1977 of major types of farms. Information was received from commercial banks, Federal intermediate credit banks, Farmers Home Administration, Federal land banks and major life insurance companies making farm loans. In the statistical tables on financial conditions presented in some of the farm type reports, only the data from commercial banks were included. The number of reports received from banks was much larger than for the other lenders.

Table 10—Farm numbers, cash receipts from farming, land and building values, and distribution by type of farm, 1969-76, U.S.

Year and type of farm	Number of farms SRS (000)	Cash receipts from farming		Value of land and buildings Jan. 1	
		Total (\$bil.)	Avg. per farm (\$)	Total (\$bil.)	Avg. per farm (\$)
1969.....	2,999	48.2	16,072	201.4	67,156
1970.....	2,954	50.5	17,095	206.9	70,041
1971.....	2,909	52.9	18,185	215.0	73,909
1972.....	2,870	61.2	21,324	231.5	80,662
1973.....	2,844	89.1	31,329	260.6	91,631
1974.....	2,830	92.6	32,721	325.3	114,947
1975.....	2,808	89.6	31,909	371.1	132,158
1976.....	2,786	95.0	34,099	422.3	151,579
<i>Percent Distribution^a</i>					
Farm type Census of Agri.	Number of farms SRS	Cash receipts from farming		Value of land and buildings	
Livestock farms (other than poultry & dairy) including livestock ranches	37.4	40.0		38.1	
Poultry	3.3	8.9		1.7	
Dairy	15.1	14.8		9.9	
Cash grain.....	21.3	14.9		26.8	
Other field crops	1.8	3.1		2.2	
Fruit and Nut	3.1	3.8		4.6	
Vegetable	1.1	2.6		1.8	
Cotton.....	2.3	1.8		3.1	
Tobacco	5.2	2.1		2.0	
General and miscellaneous	9.4	8.0		9.8	
All	100.0	100.0		100.0	

^aBased on the distribution of class 1-5 farms by types from the 1969 Census of Agriculture.

MEAT ANIMAL FARMS

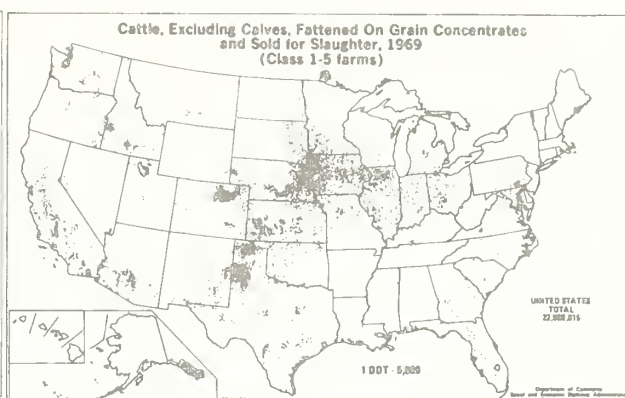
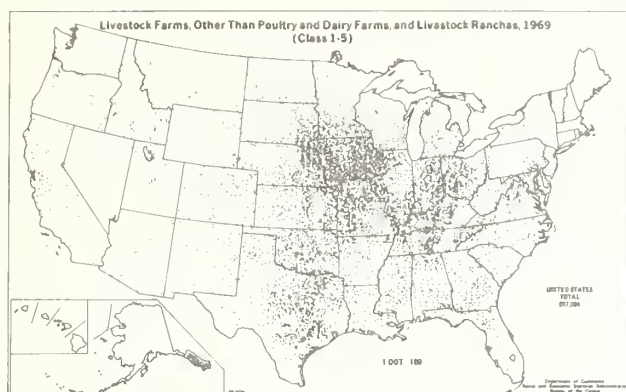


Table 11—Financial conditions in farming for 1976 as compared with 1975, as reported in a survey of commercial banks

Farm type and item	Lower	Same	Higher
Percentage distribution			
Livestock farms other than poultry or dairy			
Demand for farm loans			
Nonreal estate	14	29	55
Real estate	16	62	21
Net farm income	51	28	19
Net worth	37	34	28
Rate of loan repayment	33	53	13
Rate of loan renewals and extensions	10	50	39
Security requirements	0	63	36
Risk of making loans	14	47	37
Availability of loan funds	15	42	41
Beef feedlots			
Demand for farm loans			
Nonreal estate	4	28	68
Real estate	15	50	35
Net farm income	92	8	0
Net worth	53	35	12
Rate of loan repayment	31	58	11
Rate of loan renewals and extensions	4	58	38
Security requirements	0	68	32
Risk of making farm loan	4	36	60
Availability of loan funds	7	51	42

In the Southeast, feeder cattle prices have been somewhat lower than in the other parts of the country during the past 2 years. Marketings of nonfed calves, cows, and heifers have been relatively heavier there than other areas of the Nation because of the high maintenance costs for feed and pasture. The outlook for this area will improve with strengthened demand for feeder cattle.

1976 Financial Conditions

Beginning in late 1973 and continuing through early 1975, a buildup in cattle numbers and increased supply of beef resulted in fed cattle prices falling. Concurrent with the drop in fed cattle prices, feed costs and most operating expenses rose sharply. A reduced demand for feeder calves by feedlots resulted in a sharp drop in feeder calf prices. Another major factor contributing to the somewhat depressed returns situation was the large marketings of nonfed beef from cow-calf producers who had previously withheld larger number of replacement heifers to expand their beef herds. Packers provide an alternative market for the burdensome supply of young cattle. As a result, there was a large increase in the number of nonfed steers and heifers slaughtered commercially during 1975 and 1976. During 1976 much of the cattle industry incurred losses.

With relatively low feeder calf prices and depressed level of earnings from cattle raising, especially in 1974 and again in 1976, record liquidations of cows and heifers from breeding herds occurred. In 1975, cow slaughter jumped over 50 percent from the previous year to 11.6 million head.

Cow numbers totaled 54.8 million head on January 1, 1976 down nearly 3 percent from the record of 56.7 million on January 1, 1975. Because cow slaughter has continued to outpace replacements during 1976, the inventory on January 1, 1977 will be down about 6 percent.

Lenders indicated that a number of livestock producers will have a lower net farm income and lower net worth in 1976 as compared to 1975. How-

Cow-Calf (Cattle Raising) Outlook for 1977

The financial condition of cattle raisers likely will improve in 1977. Prices for feeder calves are expected to improve as reductions in cow and heifer numbers are expected to hold beef production in 1977 below this year. However, competition from pork producers, both for feed grains and consumer meat expenditures, appears likely to dampen fed cattle prices and attendant feeder cattle prices at least through much of 1977.

Financial institutions indicate farm loan demand for general operating expenses and feeder cattle will be higher on livestock farms. No shortage of loan funds is anticipated in meeting this demand.

ever, nearly half of all lenders surveyed expected that livestock raisers would have the same or higher net incomes, and nearly two-thirds of the lenders thought that net worth would be the same or higher than in 1975.

In spite of the depressed financial conditions of the past few years, most livestock producers have been able to avoid foreclosure and lenders in general have continued to provide loan funds for regular borrowers. Most financial institutions indicate that they will make available the same or more loan funds in 1976 than in 1975. While loan repayment rates tended to decrease slightly from those of 1975, the rate of loan extensions and delinquencies for livestock raisers was not substantially above the average for all farm types.

The ability of most producers to sustain a period of unfavorable earnings is due, in part, to the low debt-to-equity ratios of operators prior to the turn-down in their earnings. Rising land values over recent years have generally contributed to rising equity positions which provided increasing collateral bases for additional borrowing. Lenders indicated that land prices in livestock raising areas continued to increase on an average of nearly 10 percent during 1976, adding to the net worths. While lenders were willing to finance regular borrowers, funds for new borrowers or additional funds for regular borrowers during the last 2 years were scarce; lenders and borrowers were both very cautious. Producers most adversely affected were primarily new producers and those who had incurred large debt obligations for expansion in land and cattle during the years of high cattle prices.

Another factor contributing to the financial stability of farms and ranches when cattle earnings were depressed was the large number of cattle produced on smaller farms where other sources of income supplemented earnings from cattle operations. Data from the Census of Agriculture in 1969 indicate that 87 percent of all cattle farms had herds of less than 100 head and these farms accounted for 46 percent of all cows and heifers. The current distribution of cow herds by size is probably not greatly different from the distribution in 1969. Many of these smaller units have off-farm sources of income or income from crop enterprises, and consequently were less seriously affected by the depressed earnings from their cattle production. Also, an emergency livestock loan program was started in 1974 and some cattle feeders and cow-calf producers obtained loans guaranteed by the FmHA under this program. As of September 30, 1976, about 6,000 producers had obtained loans of about \$800 million.

Beef Confinement-Feedlots Outlook for 1977

Cattle feeders are somewhat optimistic about the outlook for 1977. Fed cattle prices are expected to improve in 1977 because of an expected reduction in nonfed slaughter and because fed cattle marketings are expected to remain near those of 1976. The lower beef supplies are expected to push the market prices for fed cattle into the low to mid \$40's per hundredweight by next spring.

With the larger 1976 corn crop, some decline in the volume of exports, and some increase in grain fed in the U.S., the ending stocks of feed grains will increase in the 1976/77 marketing year. If these prospects materialize, feed grain prices may average a little below 1975/76. The price of feeder cattle may be up somewhat, following fed cattle prices. Thus, cattle feeding costs may ease some in 1977 and a modest improvement occur in the profitability of feeding cattle.

1976 Financial Conditions

1976 was not a good year for cattle feeders. On the average, cattle feeders have lost money on cattle marketed during the year, especially after mid year. The loss resulted primarily from low prices received for fed cattle. Feedlot operators paid more for feeder cattle in 1976, but these costs were slightly offset by lower feed grain costs. Compared to 1975, the cost of production was down. Relatively heavy marketings of fed cattle throughout 1976 in combination with relatively large slaughter of nonfed cattle resulted in large total beef supplies and kept pressure on prices received for fed cattle.

A high proportion of the total costs of feeding cattle is normally lender financed. It represents relatively short term, rapid turnover debt. However, financial institutions have, for the most part, been careful to require sufficient collateral or have dealt with clientele that could sustain large losses and remain solvent. While some financial institutions have no doubt had some losses, no major problems such as those experienced in 1975 have surfaced.

Hogs Outlook for 1977

There is little chance that the economic situation will be as good for the hog producer in 1977 as during the past 2 years. Production will be up substantially and this will hold hog prices in the mid \$30's most of next year compared with an average of about \$43 in 1976. The 1976 corn crop is large, but the price of corn is high relative to current hog prices. Meat supplies will be slightly below 1976.

Hog producers will require more capital financing in 1977. More than two-thirds of the

lenders anticipate higher demand for general operating loans in 1977 as compared to 1976. Availability of loan funds is not expected to be a problem during 1977 for most hog producers. On the

average, hog producers still have relatively good equity positions mainly as a result of the favorable pork and grain price relationships in 1975 and much of 1976.

DAIRY FARMS

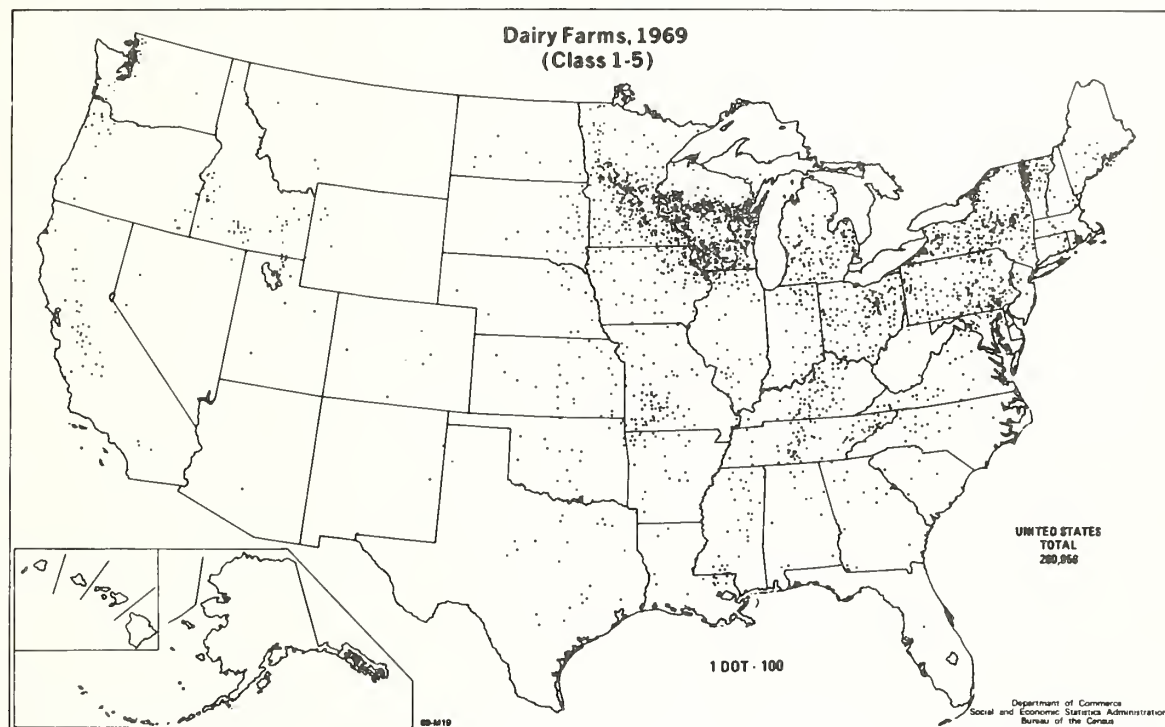


Table 12—Financial conditions in farming for 1976 as compared with 1975 as reported in a survey of commercial banks

Item	Lower	Same	Higher
<i>Percentage distribution</i>			
Demand for farm loans			
Nonreal estate	12	29	58
Real estate	18	46	34
Net farm income	16	18	65
Net worth	11	15	73
Rate of loan repayments	14	60	25
Rate of loan renewals and extensions	20	49	30
Security requirements	0	78	21
Risk of making farm loans	9	64	25
Availability of loan funds	16	40	43

Dairy Outlook for 1977

Milk production is expected to increase moderately in 1977, but milk prices may be somewhat lower. Consequently, gross dairy farm income could be down slightly in 1977 as compared with the relatively high levels of 1976. Higher hay prices and perhaps the need for heavier concen-

Dairy			
Item	1975	1976	Change
<i>Percent</i>			
Cash farm receipts from dairy production, Jan.-Sept. (\$ mil.) ¹	7,241	8,592	18.7
Milk production:			
Total milk, Jan.-Oct. (mil. lb.) ²	97,351	101,459	4.2
Milk per cow, Oct. (lb.) ²	825	876	6.2
Number of milk cows, Oct. (thou.) ²	11,116	11,053	-6
Prices:			
All milk sold to plants, Oct. (\$/cwt.) ³	9.70	10.00	3.1
Concentrate ration, Oct. (\$/cwt.) ³	6.21	6.24	.5
Milk-feed price ratio, Oct. (lb.) ³	1.56	1.60	2.6
Dairy product stocks: (end of month)			
Total milk equivalent, Sept. (mil. lb.) ¹	5,133	6,711	30.7

Sources:

¹ Dairy Program Area, ERS-USDA, November 1976. ² Milk Production, Crop Reporting Board, SRS, USDA, November 11, 1976. ³ Agricultural Prices, October 29, 1976.

trate feeding to replace scarcer forage, due to drought in the upper Midwest during 1976, may result in returns over feed costs being lower early in 1977.

With stock levels of milk products rebuilt and increases in milk production, prices likely will be near support levels during the spring of 1977. Thus, farm milk prices during much of 1977 could average lower than in 1976.

Anticipated higher feeding and other production costs combined with somewhat lower milk prices would cause the 1977 net income of dairy farms to be somewhat lower than the relatively high level of 1976. However, their income positions may still compare favorably with those of most other farm types.

1976 Financial Conditions

1976 has been a good year for dairy farmers. Even though production costs have been greater than in 1975, higher milk prices and increased milk output have yielded greater returns to dairy farmers this year.

Cash receipts from dairying, which have been above year-earlier levels since June 1975, were up about a fifth during the first half of this year, and up about 16 percent during July-August. Higher milk prices and larger marketings both contributed to the increase. Although the gains from a year earlier in dairy income likely have slowed in late 1976, cash receipts from sales of milk and cream could reach \$11.4 billion for the year, up from \$9.9 billion in 1975.

Production costs continue to exceed last year's, although the rate of increase has lessened. The index of prices paid for production items was running at a rate of about 6 percent above a year earlier in the third quarter, compared with rates of 11 and 8 percent during the first and second quarters of the year. Dairy concentrate and hay prices both were well above 1975 levels during July-September. Production costs this fall probably continued above a year ago.

Relatively tight supply-demand conditions in the dairy industry have kept milk prices favorable to dairy farmers. Increases in sales of dairy products and the rebuilding of depleted stocks generally have held market prices well above support levels.

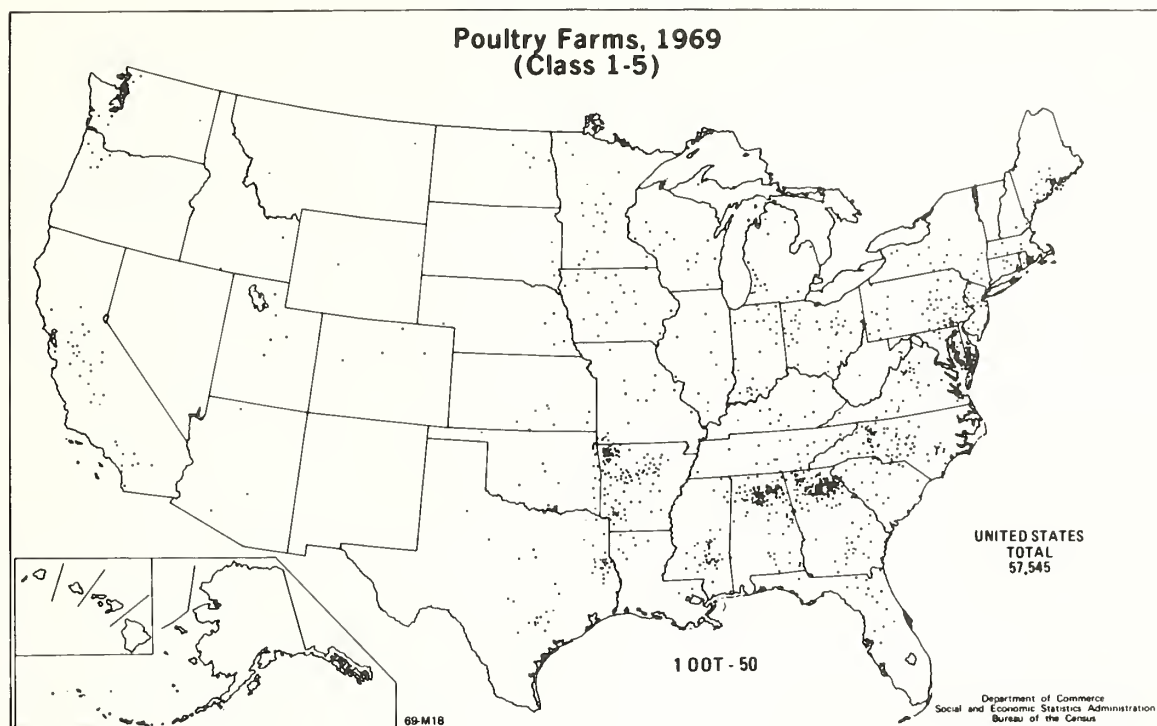
Dairy farm numbers continue to decline and average farm size continues to increase. However, with relatively large numbers of replacement heifers available and generally favorable conditions for milk production in 1976, total dairy cow numbers declined less than 1 percent from year-earlier levels during 1976.

Bankers who were surveyed compared net earnings, net worth, and other financial indicators of farm operators for this year with last year by farm types. About two-thirds of the reporters thought net farm earnings of dairy farms in their areas would be higher this year than last; however, only about one-third thought this would be the case for all farm types. Three-fourths of the reporters indicated that the net worth of dairy farms would be higher this year than last, while about one-half indicated this for all farm types. Also, in regard to numbers of borrowers with repayment difficulties, and rates of loan renewals and loan extensions for this year as compared with last, dairy farms were reported to be in a relatively favorable position relative to all farm types. Overall, reporters indicated that dairy farms made relatively good financial progress this year.

A reporter from a major dairy area in the Northeast summarized the situation in his area as follows:

"Farmers are using good milk incomes in 1976 more wisely than they used those in 1974. At that time (farmers) borrowed and spent on the assumption that the (current) milk-feed price ratio would continue indefinitely. This year cash margins are up 50 percent for dairy farms in the first 6 months over 1975. Dairy farmers have been paying down feed bills, loans outstanding, buying equipment for cash, not so much expansion."

POULTRY FARMS



Poultry 1977 Outlook

Broiler production will be less profitable in 1977 than the favorable situation in the first half of 1976. Broiler prices are expected to average less than in 1976 and feed costs will be nearly the same as last year. Prospects for lower beef production and higher consumer incomes will be a strengthening influence in broiler prices in 1977, but broilers will face stronger competition from larger supplies of pork.

The financial outlook for *egg producers* is favorable through mid-year and somewhat less favorable during latter 1977. Production of eggs will continue to slowly trend upward during early 1977. Producers will likely continue to hatch more pullets for flock replacements during the first half of 1977. This would suggest expanded production above 1976 in the second half of 1977 and prices dropping below those of last year.

Turkey producers will likely have a second year of unfavorable earnings well into 1977. Poor profit margins this fall are expected to result in a 5-10 percent reduction in turkey production during January-June of 1977, but cold storage holdings will be relatively high. Although production costs are not expected to increase, returns to producers may lag as turkey meat faces stronger competition from pork and broilers.

Lenders indicated that demand for loan funds to meet general operating expenses will be higher in 1977 than 1976. The availability of loan funds in meeting this demand is not expected to be a problem during 1977.

1976 Financial Conditions

Broiler producers had a relatively favorable year in much of 1976, similar to that in 1975. Broiler prices have been relatively strong during 1976 despite record broiler meat production. However, broiler prices in early 1977 will be dampened by continued large broiler and turkey supplies coupled with increasing pork production.

Egg producers had a relatively favorable year in 1976 and net returns have been up slightly from 1975. Egg prices will average several cents per dozen above last year, despite a small increase in output. Increased demand for hatching use, exports, and military purchases, along with reduced stocks and imports, will result in lower domestic civilian supplies and higher egg prices.

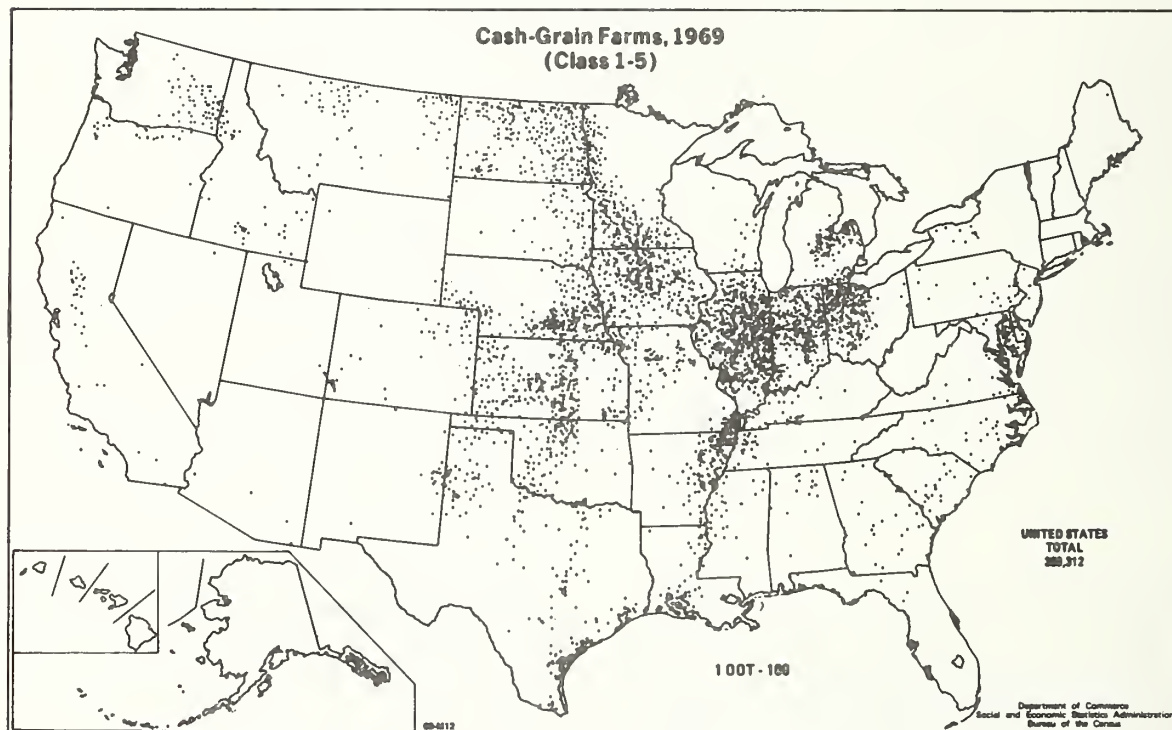
Financial conditions for *turkey producers* are less favorable in 1976 than a year ago. Turkey output will be some 13 percent higher than during 1975 and prices for the year will average nearly 10 percent less. With this large production, below

year-earlier prices, and higher production costs, net income has been down substantially during the summer and fall of 1976.

Lenders indicated that for poultry producers as a whole, demand for farm loans will be higher in 1976 than during 1975. The availability of funds to

meet this demand did not appear to be a problem during 1976. Lenders reported that for most producers, the rate of loan repayments was the same or higher than last year and the rate of delinquencies and extensions of loans were at least the same or lower than during 1975.

CASH GRAIN FARMS



Financial Conditions for Cash Grain Farming in 1976 as Reported by Lenders

The net worth of cash grain farmers is generally higher in 1976 compared to 1975, according to a recent survey of major institutional lenders. There has been no change in the rate of delinquencies, but there has been an increase in renewals and extensions in portions of the Corn Belt, Lake, Northern and Southern Plains, and Mountain States that are suffering from the effects of adverse weather. In other areas, the rate of loan repayment has remained steady to slightly higher.

The demand for farm loans from institutional lenders is reported to have increased for 1976 compared to 1975. The expected increase in farm real

Table 13—Financial conditions in farming for 1976 as compared with 1975, as reported in a survey of commercial banks

Item	Lower	Same	Higher
<i>Percentage distribution</i>			
Demand for farm loans			
Nonreal estate	2	24	73
Real estate	17	46	36
Net farm income	41	21	36
Net worth	16	28	55
Rate of loan repayments	28	60	11
Rate of loan renewals and extensions	8	54	36
Security requirements	0	74	25
Risk of making farm loans	9	53	37
Availability of loan funds	18	44	37

estate debt outstanding during 1976 ranges from 8 to 18 percent with the highest increases expected in the North Central States. However, the amount of credit provided by individuals and others for the purchase of real estate in 1976 was believed to be similar or only slightly higher than in 1975. Expectations for 1977 indicate that, compared with 1976, demand for farm real estate loans may slacken, but still continue strong. Interest rates on farm real estate loans for 1976 are ranging from 8 to 10 percent and holding relatively steady.

The expected rise in nonreal estate farm loans during 1976 ranges from 11 to 14 percent, and expectations for 1977 indicate demand will continue to increase. Demand for general operating loans and for machinery and equipment is very strong across the Nation.

Demand for crop storage loans is steady to higher this year, and is not expected to change much in 1977. The amount of credit provided by merchants and dealers is also reported to be holding steady to slightly higher. Rates of interest charged on nonreal estate loans are ranging from 7 to 10 percent and are changing little.

From the supply side for farm loans, availability of funds in 1976 is higher than in 1975. However, reports indicate the risk involved is also considered slightly higher, resulting in more security requirements.

Corn Outlook for 1976/77

Corn						
	1974		Estimated 1975		Indicated 1976	
Area harvested (mil. acres) . . .	65.4		66.9		71.0	
Yield (bushels) ..	71.4		86.2		85.5	
Production (mil. bushels)	4,664		5,767		6,063	
	1974/75	1975/76	1976			
			Aug. 15	Sept. 15	Oct. 15	
	Average price rec'd by farmers (\$/bu.) ..	\$3.03	\$2.55	\$2.64	\$2.60	\$2.33

Price prospects for the 1976/77 marketing year depend heavily upon domestic livestock feeding and foreign demand. The present USDA outlook is that corn prices at the farm in 1976/77 may average a little below the 1975/76 season average.

U.S. corn exports for 1976/77 are expected to range between 1.5 to 1.7 billion bushels, the second

largest ever. The very large Soviet purchases of last year are not likely to be repeated, but Soviet purchases in 1976/77 will be large. More corn likely will be exported to drought-stricken European countries. For 1977, some corn acreage probably will be shifted into soybean production because of prospects for strong soybean prices. The loan rate per bushel of corn for the 1976 crop was raised from \$1.25 to \$1.50 and was also announced at \$1.50 for the 1977 crop.

Sorghum Outlook for 1976/77

Sorghum					
	1974		Estimated 1975	Indicated 1976	
Area harvested (mil. acres) ..	13.9		15.5	14.8	
Yield (bushels) ..	45.3		49.0	49.2	
Production (mil. bu.)	629		758	731	
	1974/ 75	1975/ 76	1976		
			Aug. 15	Sept. 15	Oct. 15
	Average price rec'd by far- mers (\$/cwt.) ..	\$4.96	\$4.21	\$4.03	\$4.20

Domestic demand for sorghum is related to livestock feeding and tends to swing with the cattle feeding industry because about half of the sorghum fed is consumed by beef cattle. Sorghum feeding is also related to the supplies and prices of alternative feeds, particularly corn and wheat. Cattlemen's decisions to feed will influence sorghum demand during the next several months, and conditions for cattle feeding have not been favorable. However, sorghum feeding in 1976/77 is projected to range from 500 to 530 million bushels, compared with 505 million in 1975/76. U.S. sorghum exports in 1976/77 are projected to range between 185 and 215 million bushels, compared with an average of 225 million exported during the past 3 years.

With larger supplies of corn and wheat in 1976/77 and early season demand prospects slowing, sorghum prices may drift lower as uncertainties regarding domestic and world grain crops diminish. If fed cattle markets strengthen in 1977 as expected, sorghum prices should show at least some strength during the last half of the marketing year. For 1976 and 1977 the loan rate per bushel of sorghum was established at \$1.43, up from \$1.19.

Soybeans Outlook for 1976/77

Soybeans					
	1974	Estimated 1975	Indicated 1976		
Area harvested (mil. acres) . .	52.4	53.6	49.4		
Yield (bushels) . .	23.2	28.4	25.3		
Production (mil. bushels)	1,215	1,521	1,252		
	1974/ 75	1975/ 76	1976		
			Aug. 15	Sept. 15	Oct. 15
Average price rec'd by farmers (\$/bu.) . .	\$6.64	\$5.00	\$6.07	\$6.65	\$5.90

The expected average price to farmers for soybeans during the 1976/77 marketing year is \$1 to \$2 above the \$5.00 per bushel average for the previous marketing year. These substantially higher prices are generating higher farm incomes. Factors contributing to the increase in price include the 18-percent decline in production, continued large holdings of soybeans by farmers, the recent advance sale of 55 million bushels to the Soviets (usually not importers of soybeans), the European drought, and economic recovery both at home and abroad. During 1975/76, the United States had a record use of soybeans—up about 22 percent from the previous year—due primarily to strong domestic demand for soybean meal and soybean oil. Coupled with the advanced sales to the Soviets and the European drought, this indicates that soybean supplies until next fall will be tight. Expectations for 1977 indicate about a 10-percent increase in planted acres. The acreage outlook depends mainly upon the relationship between meal, grain and livestock prices.

Wheat Outlook for 1976/77

Wheat					
	1974	Estimated 1975	Indicated 1976		
Area harvested (mil. acres) . .	65.6	69.7	70.4		
Yield (bushels) . .	27.4	30.6	30.2		
Production (mil. bushels)	1,796	2,134	2,127		
	1974/ 75	1975/ 76	1976		
			Aug. 15	Sept. 15	Oct. 15
Average price rec'd by farmers (\$/bu.) . .	\$4.09	\$3.52	\$2.97	\$2.88	\$2.59

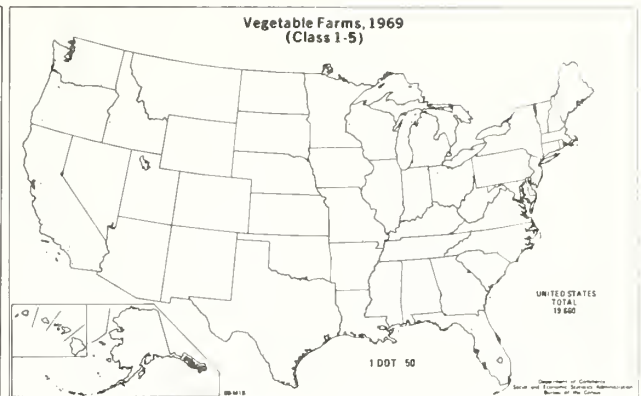
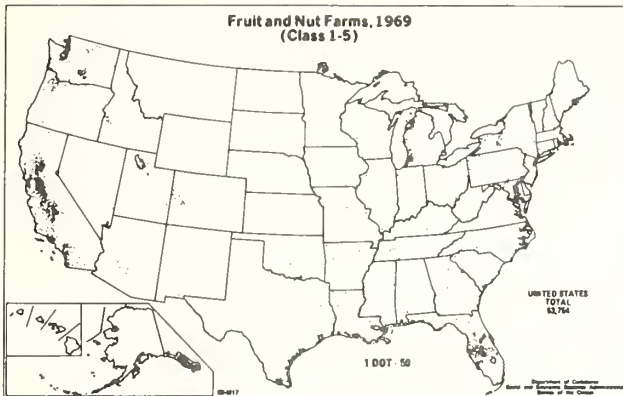
With carryover stocks increasing further, the outlook is for some further decline in wheat farm incomes in 1977. Land values will likely continue to increase, though less rapidly. Estimates of domestic use of wheat during 1976/77 are 795 million bushels—up 9 percent from last year. Mill grind has continued strong, and wheat feeding should increase because the wheat-feed grain price relationship favors greater use of wheat. Exports for 1976/77 are estimated at 950 to 1050 million bushels versus 1173 million during 1975/76. Foreign demand appears to have increased for lower protein types of U.S. wheat because of unusually narrow price differences between wheat and feed grains in the world market. The estimated carryover for June 1, 1977 is about 275 million bushels above a year earlier.

Rice Outlook for 1976/77

Rice					
	1974	Estimated 1975	Indicated 1976		
Area harvested (1,000 acres)	2,536.0	2,802.0	2,433.5		
Yield (pounds)	4,432	4,555	4,620		
Production (1,000 cwt.)	112,394	127,624	112,430		
	1974/ 75	1975/ 76	1976		
			Aug. 15	Sept. 15	Oct. 15
Average price rec'd by farmers (\$/cwt.)....	\$11.20	\$7.93	\$6.65	\$6.56	\$6.62

Net income to rice producers in 1977 is not expected to improve from 1976. Demand for rice, both domestic and foreign, appears to be on the increase but prices for rice are not expected to increase. Domestic use is likely to rise modestly. U.S. exports may be in the range of 56 to 66 million cwt., compared with 56.5 million in 1975/76. After a sharp dropoff last season, both commercial and PL 480 exports will likely rise because of smaller prospective crops in major producing countries and expected growth of world consumption. Also, some export sales made last year were carried over into 1976/77. However, U.S. stocks at year's end will increase unless the world rice crop worsens from current prospects. Thus, large supplies continue to keep prices under pressure and the CCC will continue to hold the large stocks acquired from the takeover under the loan and purchase program.

FRUIT AND VEGETABLE FARMS



Outlook for 1977 Fruits and Nut Farms

The outlook for fruit and nut producers is mixed this year. A smaller supply of apples and grapes will likely put upward pressure on prices of these products. Meanwhile, orange and lemon producers will likely face substantially lower prices in 1977 due to large harvests and carryover stocks. Tree nut production in 1976 was slightly below 1975 and prices are expected to average a little higher. The net result will likely be somewhat lower prices for fruit and nut producers. And, depending on costs of productions and domestic and foreign demand levels, 1977 will likely show net farm income again declining slightly. Nevertheless, land prices for fruit and nut producers continue to show sizable increases allowing land owners additional security for their loan requests. Lenders expect loan demands will continue to be strong in 1977.

Vegetables

With demand and supply influences both expected to be more favorable to producers, 1977 will probably be a better income year for vegetable growers than 1976. Demand will be bolstered as the domestic economy continues to expand. Producers and processors have been able to reduce their acreage and production, influenced by the increasing size of carryover stocks and less favorable prices. An uncertainty exists about fresh vegetable imports from Mexico, and its outcome will have some effect on producers incomes in the year, but generally the outlook is for an improvement.

Lenders indicated that increased funds would be available next year although loan security requirements were said to be higher.

1976 Financial Conditions Fruit and tree nuts

Producers of fruit and tree nuts generally ended 1976 in poorer financial conditions than in 1975. Although based on a small sample, lenders indicated that net farm earnings of both fruit and tree nut producers will be lower in 1976 than last year. In addition, those lenders surveyed also believed loan repayment difficulties increased this year, although there were no indications that loanable funds were becoming less available.

Some improvement for apple producers may be expected later this year. A small apple crop will likely put some upward pressure on fresh fruit prices. In addition, wholesale prices of canned fruit have improved in recent months. Orange growers, on the other hand, have produced a record crop of 11.8 million tons—12 percent above the record of last season. Also, stocks of frozen concentrated orange juice are large. Grape producers will experience somewhat improved conditions this year with wine inventories down slightly, and this year's crop has been significantly reduced from earlier forecasts due to disastrous September rains in California. Prices are substantially higher.

Vegetables

Net incomes of vegetable producers in 1976 have been lower than in 1975. Fresh market vegetable prices have averaged moderately less than a year earlier, as both domestic output and Mexican imports have been larger. Processing vegetable producers reduced their acreages this year, and weather was not as good as usual. Carryover stocks of processed vegetables had become larger

and wholesale prices had been easing much of the year.

1976 packs of processed vegetables will probably be materially smaller than last year, and carryover stocks will start to decline after a 2-year build up. A record large potato crop this fall fortunately coincided with the need for a large volume of imports by drought-stricken Western Europe.

The few reports available from commercial banks that lend to vegetable growers indicated that the less favorable incomes during 1976 had not been accompanied by unusual credit diffi-

culties. All of the reporting banks indicated that incomes of vegetable growers were lower in 1976 than in 1975. The number of borrowers with loan repayment difficulties had increased more than the average increase for all farmer borrowers. But while loan demand was reported higher, the availability of loan funds was also indicated to be higher. Lenders viewed the risk of making loans as increased and were raising security requirements. However, the continuing rise in prices of farmland is one of the factors encouraging lenders to provide loan funds to these producers.

COTTON FARMS

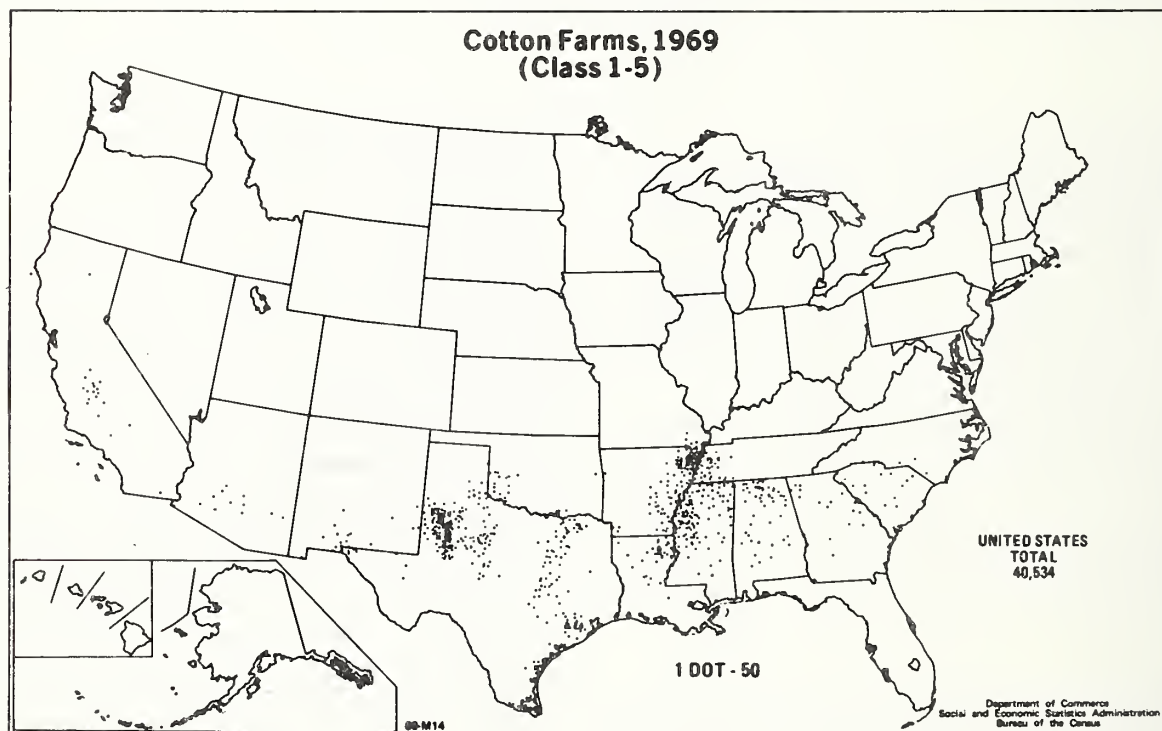


Table 14—Financial conditions in farming for 1976 as compared with 1975, as reported in a survey of commercial banks

Item	Lower	Same	Higher
<i>Percentage distribution</i>			
Demand for farm loans			
Non-real estate	0	20	80
Real estate	20	40	40
Net farm income	20	10	70
Net worth	30	10	60
Rate of loan repayment	12	37	50
Rate of loan renewals and extensions	25	50	25
Security requirements	0	50	50
Risk of making farm loans	50	10	40
Availability of loan funds	10	70	20

Cotton Outlook for 1977

The financial condition of cotton farmers should improve further in 1977. Indications are that use of cotton will continue relatively strong and prices will be favorable. Cotton acreage in 1976 was not as large as had been planned, mostly because of unfavorable weather at planting time and during parts of the growing season. Farmers may increase their acreage in 1977 to levels they planned to plant in 1976 but could not due to weather.

Production costs for the 1977 crop will be moderately higher than 1976. Cost per pound of lint will continue highest in the Southeast and lowest in the Southwest.

Cotton acreage, yield, production and price 1974-76

Year	Acreage harvested	Yield of lint	Production	Average price October 15
	1,000 acres	Pounds	1,000 bales	Cents per pound
1974	12,567	441	11,540	51.4
1975	8,796	453	8,302	49.7
Indicated 1976	10,914	435	9,891	62.5

Farmers in the Delta States, which usually produce more than one-fourth of U.S. cotton, shifted some of their cotton land to soybeans and corn in expectations of lower returns from cotton in 1976. Their 1977 cotton acreage again will depend to some extent on the expected prices of those alternative crops. A possible restriction on some acreage in the irrigated West is the supply and higher cost of irrigation water. Few farmers who do not already have the equipment and labor to grow cotton will let the lure of expected highly favorable cotton prices entice them to make the heavy capital investments necessary to become cotton producers.

Compared with the last several years, the outlook for credit from regular lenders is good for cotton farmers across the country. The improvement of net worths of cotton growers in 1976 will strengthen their eligibility for operating and capital purpose loans in 1977. Interest rates from most lenders were somewhat lower in 1976 than in 1975 and are not expected to increase much, if at all, in 1977. Commercial bankers lending primarily to cotton farmers expect substantial increases in demand for operating and equipment loans and a smaller rise in loans to purchase farm real estate.

1976 Financial Conditions

Cotton farmers improved their financial situation in 1976 over the year before. Prices received for cotton in 1974 and 1975 were at or below the

cost of production for some producers, and low returns reduced the net worth of some producers. Although average yields are lower than in 1975, the one-fourth increase in acreage is totaling a larger production and at considerably higher prices. Production from the 1976 crop is estimated at 9.9 million bales, about one-fifth above 1975 but still 14 percent less than the 1974 crop.

The price of upland cotton lint advanced steadily during February-October 1975, leveled off, and then started upward again in May 1976. From an average of 32.6 cents per pound received by farmers in February 1975, it rose to 49.7 cents in October. In April 1976 the price jumped from 50.2 cents per pound to an average of 71.4 cents per pound in mid July before dropping back to the low 60's in August. Although the prices of over 70 cents per pound and in some instances 80 cents per pound or more attracted considerable attention, the whole picture has not been nearly that bright. About half of the 1976 cotton crop was contracted for sale prior to harvest, at prices ranging from 50 to 60 cents per pound. The sharp upward movement in price began in late April and early May. By the end of May over one-third of production had been contracted, and another 12 or 13 percent was contracted by the end of September. It is not known what the contract prices were, but since they are based largely on futures prices, it is reasonable to believe that except for the portion contracted during June and July the contract prices were well below 70 cents per pound. Recently the price of cot-

Average price received for cotton by farmers and volume of cotton contracted for sale by region, by months, 1976.

Month 1976	Average price received by farmers on 15th of month U.S.	Volume of 1976 cotton contracted for sale by end of month				
		South-eastern	South central	South-western	Far West	U.S.
	Cents per lb.	Percent	Percent	Percent	Percent	Percent
February	51.7	14	29	3	22	15
March	52.8	15	30	4	25	16
April	50.2	27	54	7	40	29
May	57.1	40	65	9	48	36
June	68.0	49	71	13	59	42
July	71.4	50	73	22	65	47
August	60.4	52	73	23	65	48
September	64.5	52	73	23	69	49

ton has advanced further, and it remains to be seen how well producers actually fare in the marketplace.

According to a survey of bankers serving predominately cotton producing areas, the financial condition of cotton farmers improved markedly in 1976. While the demand for loans was substantially greater than in 1975, they considered the loans less risky than in 1975, the rate of loan repayments was higher, and the delinquency rate lower than in 1975. Also, bankers considered cotton borrowers' net earnings higher and net worths improved when compared with 1975, and the num-

ber of borrowers with repayment difficulties was much lower than a year earlier. It is recognized, however, that 1975 as well as 1974 were not financially favorable years for most cotton producers, which may make 1976 seem better than it might otherwise seem.

Cost of producing a pound of lint in 1976 is estimated at 62 cents per pound in the Southeast and 27 cents per pound in the Southwest. Although the cost per acre in the Southwest is about \$412 compared with \$260 for the Southeast, the higher yield per acre in the Southwest (1068 lbs.) grossly outranked the yield in the Southeast (364 lbs.).

TOBACCO FARMS

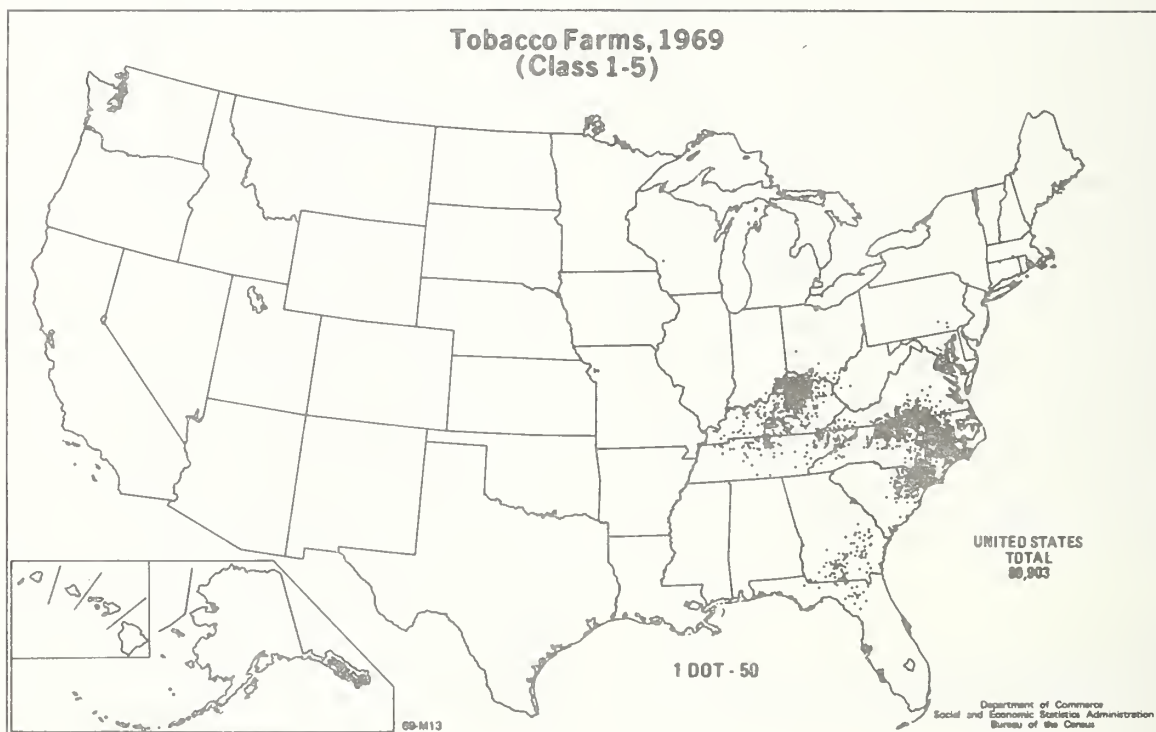


Table 15—U.S. flue-cured tobacco production, prices, and costs, 1975 and 1976

	1975	1976 ¹
Poundage quota (mil. lbs.)	1,572	1,409
Acres (000)	717	663
Yield per acre (lbs.)	1,973	1,961
Production (mil. lbs.)	1,415	1,300
Price/lb. (dol.)	1.00	1.11
Cash receipts (mil. dol.)	1,412	1,443
Cost per lb. excl. land, management, and allotment (dol.) ²	.63	.66
Net income per lb. to land, management and allotment (dol.)	.37	.45
Net income for all growers (mil. dol.)	524	585

¹ Preliminary. ² Tractor drawn priming aid and cured in bulk barn.

Tobacco Outlook for 1977

Prices received for tobacco and income conditions of tobacco farmers should remain favorable in 1977. Price support guaranteed to the tobacco grower by the Federal government is tied directly to a cost measure as expressed by changes in the parity index over the most recent 3 years. A 7-percent increase in the price support level for 1977 is indicated. Production expenses should rise moderately as price increases of many farm inputs have slowed.

Favorable income conditions improved the financial position of tobacco farmers as well as their net worth in 1976. Tobacco farmers are

increasing on-farm storage, farm mechanization, and farm size—all of which serve to increase the demand for loans. These trends should continue in 1977. Overall, tobacco farmers can expect no more difficulty in borrowing funds to meet operating expenses and to purchase capital items in 1977 than they experienced in 1976.

1976 Financial Conditions

Net income from tobacco is better in 1976 than in 1975 due to stabilized production costs plus record high market prices. Total U.S. tobacco output in 1976 is estimated at 2.07 billion pounds, about 5 percent less than in 1975 primarily because of a 5-percent acreage reduction and dry weather. Total disappearance of U.S. tobacco in 1976/77 is expected to change little from the previous marketing year. Coupled with 7-percent larger carryin stocks, total supplies are 2 percent larger. Most of the gain is in flue-cured.

Flue-cured represents 63 percent of total value of 1975/76 crop year marketings, burley accounts for 30 percent, and other tobaccos for 7 percent. Flue-cured burley tobaccos are principally used for cigarettes.

U.S. farm sales of flue-cured tobacco totaled around \$1.4 billion in 1976, about the same as the previous year. Most of these sales were made by specialized tobacco farms, with tobacco accounting

for two-thirds or more of cash receipts. Corn and soybeans are important secondary crops.

Flue-cured tobacco production was down about 8 percent as basic poundage quotas were decreased 15 percent in 1976. The effective quota (base quota adjusted for overmarketings and undermarketings) was 10 percent lower in 1976. Yield per acre averaged about 1 percent below 1975, so the 1976 marketings fell about 9 percent short of the effective quota. Quality of the 1976 crop was probably a little better than in 1975.

Net income from flue-cured tobacco increased about 12 percent to \$585 million in 1976 (table 15). Prices received for flue-cured tobacco averaged a record \$1.11 per pound, up 11 cents, because of higher support prices and stronger demand from domestic and export buyers to meet their expanding product output. The price support loan level for the recent crop averaged \$1.06 per pound, up nearly 14 percent from 1975. Higher supports and strong demand mean burley prices are also likely to set record high levels when auctions open in late November.

Fertilizer and chemicals were the principal inputs that were lower in cost in 1976. Expenditures for these items accounted for about a tenth of production costs (excluding land, management, and allotment costs). On the other hand, expenditures for hired labor amounted to about one-third of total operating expenses. Wage rates increased about one-seventh and outlays for hired labor were up about 5 percent.

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